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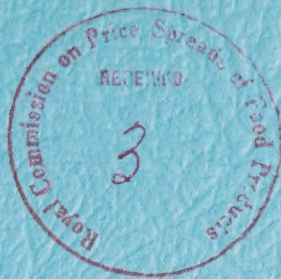
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Hearings. v. 28-30, 1958.

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Henry Watton

ROYAL COMMISSION

ON

PRICE SPREADS OF FOOD PRODUCTS

HEARINGS

HELD AT

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VOLUME No.:

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ROYAL COMMISSION ON PRICE SPREADS OF FOOD PRODUCTS

Proceedings before the Royal Commission on Price Spreads of Food Products resumed at 2.00 p.m. on Wednesday, November 12th, 1958, at Ottawa, Ontario

CHAIRMAN:

Dr. Andrew Stewart

COMMISSIONERS:

Mrs. Dorothy Walton
Mr. J. Howard MacKichan
Mr. Romeo Martin
Mr. W. Malcolm Drummond
Mr. Cleve Kidd
Mr. Bernard Couvrette

Secretary

John Dawson

Assistant Secretary

A. A. Caron



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Wednesday,

November 19, 1958.

--- Upon resuming at 9.30 a.m.

Submission of
BRITISH COLUMBIA PACKERS LIMITED

Appearances:

Mr. J.N. Hyland Vice-President Sales

--- EXHIBIT NO. 82: Brief submitted by
British Columbia
Packers Limited

THE CHAIRMAN: The brief for this morning is from the British Columbia Packers Limited, to be presented by Mr. Hyland, vice-president.

May I thank you again, Mr. Hyland, for staying over~~y~~today. We appreciate it very much in helping us out that way. Would you read your brief, now?

MR. HYLAND: Thank you, Mr. Chairman and members of the Commission. My name is Norman Hyland. I am vice-president of British Columbia Packers Limited. My particular responsibility is the marketing of our company's wide range of fishery products.

The purpose of this submission is to



2 present our observations and opinions on certain general trends which influence the spread between what we pay for our raw material and the price at which we invoice our customers.

British Columbia Packers Limited is an integrated fish acquiring, processing and marketing organization with plants in British Columbia and Nova Scotia. The products from these plants are sold by the company's sales offices or agents in Canada, and in numerous export markets. These sales offices, both domestic and export, also sell a substantial volume of products purchased from other processors in Canada, United States, Japan, Denmark, Australia, etcetera. The subject matter of this submission, however, is confined to the consumer products originating from our British Columbia plants.

The British Columbia fishing industry produces 1.6 per cent of the total world fishery production. The bulk of the B.C. output is sold to many countries throughout the world in competition with fishery products of other nations, and the balance is consumed in Canada. Here in Canada, fish does not supply the protein needs of Canadian consumers to the same degree as in other countries. Fish compete with meat and poultry for a share of the family food budget.

If I may digress briefly: As an illustration of this I was interested in listening to the brief yesterday of the Canadian Association of Consumers.



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While many food products were mentioned, fish, as a food, was never mentioned. The only reference to fisheries at all was that part of the national budget which is devoted to fisheries research, but fish, as a category of food products available for Canadians, was not mentioned.

While meat and poultry consumption has risen sharply in the last ten years, fish consumption has remained relatively constant. This is substantiated by the annual per capita consumption of fishery products which was 13.1 pounds in 1947 and 13.2 pounds in 1957. In the same period poultry consumption has risen 12.1 pounds (from 21.1 to 33.2), an increase almost equal to the total annual per capita fish consumption! The increase in beef consumption in the same ten-year period has been 18.7 pounds! (From 56.1 pounds to 74.8 pounds)

The food industry is highly competitive. If we, ~~as~~ a company, are to survive and grow we must provide our customers with a variety and quality of fisheries products at prices which they regard as good value by comparison with competing foods.

Acquiring Costs: In addition to the price paid to the producer for the raw product, the company provides many services which add to the cost of fish before it is landed at the plant. Historically, we have financed fishermen in the purchase of their vessels. Each year much of



the fishing gear and equipment, particularly in the salmon net fishery, is financed by the company to be paid for by the fisherman out of his catch. The annual write-off of bad debts, resulting from advances to fishermen, is a cost item of concern to all companies in the fishing industry.

To serve the mobile fishing fleet, the company operates and maintains machine shops, net lofts, wharfs, and net racks. We also maintain a number of floating camps to service the salmon net fleets, as well as salmon troll and halibut vessels. Some of these camps are moved from place to place as the season progresses. These services are both necessary to the fisherman and costly to the company and are reflected in the price of our product.

In the salmon net fishery, we take delivery from the producer on the fishing grounds. Salmon trollers and small halibut boats deliver to our camps adjacent to the fishing grounds. The cost of maintaining and manning collector and packer boat fleets for the delivery of supplies and ice to the grounds and the transportation of the raw product to the processing plant adds appreciably to the cost of acquiring fish.

These services must be maintained from year to year on a relatively fixed basis geared to the anticipated maximum volume.

Added to these costs is the amount of the raw product purchased by the processor but unusable



in the form of the final product. When delivery of fish is taken on the grounds, there is a loss of weight or body fluids during transit to the plants. The major loss occurs in processing when inedible parts are removed from the fish. This is general with all fish and varies with the species and the form in which it is purchased. For example, in the case of salmon used for canning, the weight of the fish in the canned product is approximately two-thirds of the purchased raw fish weight. Sole fillets represent only 25 per cent to 30 per cent of the purchased weight.

Cost pressures: As fish processors, we are subject to increasing cost pressures from three principal sources:

1. From unions,
2. From governments,
3. and as a result of consumer trends.

We will deal first with union pressures which are direct: To the best of our knowledge, fishermen in other areas of Canada are not organized to negotiate fish prices with buyer-companies. In British Columbia, however, fishermen are effectively organized into a producer group which is the dominant section of the United Fishermen and Allied Workers' Union. This group negotiates seven fishing agreements with the Fisheries Association of British Columbia, which represents the majority of the buyer-companies.

The United Fishermen and Allied Workers'



Union has been a militant and forceful organization which bends every effort to obtain the maximum price for net-caught salmon produced by its members. In the past ten years this Union has called twenty strikes (in various sections of the industry) to force maximum concessions from the companies. Experience has shown, after some of these tie-ups, that the settlement price was uneconomic. The consumer resisted the higher cost and the processor's margin was squeezed to the point of loss.

The United Fishermen and Allied Workers' Union, with varying success, has endeavoured to extend its activities beyond matters concerning fish prices and fishing conditions. For example, in 1956, by unilateral action, the Union assumed the right to enforce a seven day lay-up between trips for the bigger halibut boats. In addition, the Union arbitrarily established fishing periods and closed periods for the small one-and two-man halibut vessels. These actions affected all producers in the halibut fishery irrespective of each fisherman's status as to Union membership. The net result has been a higher total cost of acquiring halibut.

There can be little doubt that the producer-fisherman in British Columbia has received a fair price for his production. West coast fishermen are recognized as having the highest earnings of any fisheries group in Canada.

In its other capacity as a Trade Union of employees, the United Fishermen and Allied Workers'



Union is certified for plant workers and men engaged aboard fish-packing boats. As a company, and as a member of the Fisheries Association of British Columbia, we are party to eleven labour agreements with the United Fishermen and Allied Workers' Union covering these two categories of employees.

It is virtually impossible to estimate the total cost to the industry and to our company of employees' strikes and fishermen's tie-ups. However, it can be stated unequivocally that the withholding of production in a fishery results in fixed costs being apportioned over a smaller volume of production. Inevitably, some of these additional and unnecessary costs are borne by the consumer.

Inflationary Pressures: British Columbia has the highest wage economy in Canada. British Columbia's high wage trend started after World War II, and still continues without signs of abatement. Labour contract settlements in British Columbia in the past year are reported to have granted much higher wage increases and other concessions than new contracts being settled in Ontario, Canada's most highly industrialized region.

This British Columbia wage trend bears directly on manufacturing costs. Most of our processing materials are manufactured under this high wage structure and are priced accordingly. Similarly, the service industries, such as transportation and longshoring, pass their high labour costs on to us.



A few examples are:

(a) Cans - our own can supplier pays the highest wages of any industrial operation in British Columbia. These rates are also higher than rates in the can making industry elsewhere in Canada. (Despite efforts of the manufacturer to minimize his costs, a one-pound tall can which costs us 2.22 cents in 1947 was 3.65 cents in 1957, an increase of 64 per cent).

(b) Paper Products: The British Columbia Pulp and Paper worker receives the highest wages in Canada for that industry. These wage rates are reflected in the higher prices we pay for these products.

(c) Services: Wage trends for long-shoremen in British Columbia typify the situation in the service industries. These men receive the highest wage rates for any long-shoremen in this country. These wage rates have increased the costs of outward materials to our up-coast plants and are reflected in the cost of shipment of the finished product to point of distribution.

Capital costs of new plants and equipment have also been subject to this upward spiral with the resultant necessity for greater depreciation and other costs being charged against our products.

Government Cost Pressures: All levels of government have added to the costs of operation and processing over the past ten years. Such



increased costs are not confined to direct taxes but include legislation, regulations, and the provision of statistics and ever-increasing services in the collection and accounting fields that require additional clerical staff.

Examples of recent cost-increasing legislation are:

(a) The extension of Unemployment Insurance to fishermen:

Not only do we have the expense of the "employer's" contribution but the accounting services necessitated by this Act add considerably to our costs of administration.

(b) The British Columbia Government in 1956 instituted legislation which raised the minimum vacation pay requirements in all industry from 2 per cent to 4 per cent of gross earnings. The Federal Government on October 1, 1958 proclaimed an Act of similar nature.

(c) In British Columbia we have seen in the past ten years the institution of a Social Service Tax of 3 per cent which later increased to 5 per cent paid at the time of purchase on many articles used in our operations.

Customer Trends: During the past ten years there have been many changes in the processing and packaging of Canadian food products. Frozen fruits and vegetables have become a commonplace part of the housewife's purchases. The meat counter and the butcher have to a large extent been replaced



by packaged meat in a refrigerated self-service cabinet.

More recently we have seen the up-surge of packaged frozen meat products, both uncooked and pre-cooked, even to the extent of the frozen packaged "dinner" ready to "heat and eat".

The housewife has welcomed and encouraged this continuing trend of more preparation in the factory instead of the kitchen. This has meant more leisure for the housewife but it has also resulted in the cost of factory preparation being included in the price paid for the article. Experience has demonstrated the housewife wants and is prepared to pay for the "food plus service" available in our packaged products.

The fishing industry, and British Columbia Packers Limited in particular, has, of necessity, followed and participated in this movement. Had we not done so, competitive meat and other protein products would have made serious inroads into consumer markets at the expense of fishery products.

In meeting this competition our costs, both capital and processing, have been increased. The cost of the finished product has been increased by the inclusion of preparation and packaging materials.

To divert, I cannot illustrate this point better than by making a small demonstration to the members of the Commission.

I brought with me here this morning some



fish which I would like to show to the Commission.

(Mr. Hyland produces a raw frozen fish).

This, in our business, is a dressed, headless halibut. It is frozen, but pretty well as it was purchased from the fisherman. Now, we are able to sell that in Canada to our distributors, at a price of 28 cents per pound, boxed, Vancouver.

(Mr. Hyland produces a box of frozen fish).

This is another one of our products. It is halibut also. All skin and bone has been removed, and all the waste factor, which is present in halibut in its raw form, has been eliminated.

This product is 53 cents per pound as compared with 28 cents in the dressed, headless form. This fish is already prepared for the housewife.

The next stage in this is halibut fish and chips. We have prepared it. It is all cooked. All that is required is that it must be heated. This food costs 53 cents. It contains nine ounces of cooked fish, and 11 ounces of potato chips.

I think that illustrates as best I can the changes in prices which result from the extra processing factor.



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To maintain our products on the shelves and in the freezer cabinets of our retail customers requires a year-round inventory of all sizes of all products. This means additional warehousing and financing costs. Shelf and freezer cabinet space in Canada is keenly sought after and jealously guarded by all food processors. Such space if unfilled through inability to supply an item, is immediately forfeited to a competing product.

Institutional sales have also been affected by the trend to prepared and pre-cooked products. Our company, in the last few years, has commenced manufacturing for restaurants and institutions, pre-cooked and frozen individual fish portions. Like the housewife, our institutional customer prefers and is willing to pay for the "built-in kitchen" feature provided by these products.

In summary, the trend to prepared and pre-cooked packaged products forced upon us by competitive non-fishery products has increased our processing costs and of necessity has, therefore, increased the spread between the price paid to the fisherman and the price paid by our distributors.

Profit factor: One part of the spread between producer and customer is represented by profit. It is our opinion that the average net profit earned by our company over the past ten years is insufficient. This opinion is based on



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the following considerations:

1. The degree of market risk in the processing and sale of seasonal products is higher than in industries which can gear their production to their daily sales needs.

2. We must secure and maintain expensive processing equipment which is only utilized for a small portion of any year.

3. Technological changes in fish acquiring and processing require a steady investment in new boats, new plants, and equipment. This capital investment must come from either new capital or the re-investment of earnings. To date, the earning performance of the industry has not attracted large amounts of new capital; consequently the provision of modern boats and plants has depended upon re-investment of earnings.

The continued use of the large amounts of capital required by this industry can only be justified if earnings are sufficient for continued development and provide the shareholder or proprietor with an adequate return on his investment.

Conclusion: We have endeavoured to describe some of the pressures affecting the spread in price between the producer and the customer originating from inflation, the demands of organized labour and by the requirements of all levels of government. In addition, we have outlined the cost-increasing influence of consumer trends.



The outlook, in our opinion, is for a continuing increase in pressures on the spread between the producer price and the consumer price.

There is no indication that labour will give up its annual demands in all sections of industry for higher wages, shorter working hours and more company paid welfare and other fringe benefits. Every time concessions are granted to the steel workers who produce the tin plate for our cans, the oil refinery workers who produce the oil for our plants and fleet, the artisans who produce our equipment, the seamen and railroad workers who transport our materials and our finished product, the spread between raw product and finished product will tend to increase.

The costs of operating our Governments have shown no sign of decreasing. The public pressures for more and better schools and school systems, better roads and highways, better social assistance and higher pensions, subsidies to industries and groups of producers - all of these require increased revenue which can only be derived from increased taxes.

The ultimate reflection of these cost pressures in higher consumer prices is inevitable.

We foresee the housewife spending less and less time in the kitchen and seeking more and more food products with "built-in kitchen help". Our products will have to meet this demand and in so doing, any processing required to give our



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products a greater degree of "table-readiness" will tend to widen the gap between the price of raw product and the finished article.

These pressures will all have a cumulative effect on our costs of production. We will continue to perform our present functions as efficiently as possible in order to keep costs to a minimum. It is our opinion, however, based on past experience that these endeavours will only partially off-set future cost pressures.

THE CHAIRMAN: Thank you.

COMMISSIONER MacKICHAN: On page 1 you mention that the spread is the difference between the price of the raw material and the price you invoice your customers, and I think it is plain you have stuck pretty closely to the terms of reference and dealt with spread. My question is, you mention these products sold by the company's sales offices or agents in Canada: Do you take part in what may be described as wholesale activities pretty largely here?

MR. HYLAND: In only a minor instance. The great bulk of our Canadian distribution is to the wholesale distributing trade. We operate in Western Canada a fish wholesaling division for British Columbia and Alberta. The remainder of our Canadian distribution is, in the canned goods line, to large wholesale organizations or the chain store organizations; or the fresh caught frozen fish wholesale organizations.



COMMISSIONER MacKICHAN: You sell through the larger retailers and the regular wholesalers, generally speaking?

MR. HYLAND: Well, we sell to those people who are qualified, and who rate what is called "direct selling recognition" by suppliers.

COMMISSIONER MacKICHAN: On page 4 you mention some of the pressures; you mention unions, but on the production side of it -- this is not for a wage directly, or, as it is in the East, a shared price for the catch?

MR. HYLAND: Negotiation with the fishermen groups is to determine the cent per pound we will pay for their production. It is not a wage contract.

COMMISSIONER MacKICHAN: On page 4 you mention maximum price for net caught salmon: What proportions of the catch is net caught versus trolling and other forms?

MR. HYLAND: I haven't got the exact figures, but the great bulk of our salmon for canning purposes is caught by net, and that proportion of our salmon used in the fresh and frozen trade, the Spring salmon species and Cohoe salmon, is all caught by hook and line -- trollers, but, the bulk of the salmon is caught by net. I would not like to guess at the exact percentages, but I do know the net caught is much the largest.

COMMISSIONER MacKICHAN: Do the same prices prevail?

MR. HYLAND: No; for different uses --



different species.

COMMISSIONER MacKICHAN: Which are the higher?

MR. HYLAND: Well, the highest is the fish caught for fresh use, particularly on the United States market. Spring salmon, as an example, during the past season reached a price of 44 cents a pound to the fisherman dressed with the head on, whereas the most expensive species of salmon for canning purposes is Sockeye, for which we paid 28 cents per pound round.

COMMISSIONER MacKICHAN: We have noticed quite a bit in the press this year -- and I don't know what adjective to use in describing the catch in British Columbia ...?

MR. HYLAND: "Sensational" is the one we use.

COMMISSIONER MacKICHAN: Do I take it both the fishermen and the packers have been fairly happy?

MR. HYLAND: Yes, I think each group has many reasons to be happy. Nature blessed us with an abundance which has not been experienced in 50 years.

COMMISSIONER MacKICHAN: Was the industry prepared to take care of all that product without any undue deterioration or loss?

MR. HYLAND: Yes, there have been many comments on the excellent performance of the processing companies. First of all, in gearing their



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plants, their actual processing equipment and the transport of the fish from the grounds to the processing plants to get the fish canned at its peak of quality. I could add that the preparations for processing and transport were just one part of it. The financing of such a big production was another problem, because the fishermen expect to be paid cash for this fish, but we cannot sell it as fast as we catch it, so the financing was a major problem.

COMMISSIONER MacKICHAN: I presume the marketing was somewhat solved this year by the action of the United Kingdom government?

MR. HYLAND: Yes, that was a very fortunate sequence of developments. I may say it didn't just happen: Our industry has recognized for a long time that we required and we should have access to such an important export market as the United Kingdom, and we have been pressing for the de-control of salmon imports for many years. So, it was very fortunate that they did relinquish the controls when they did; it coincided with a great supply here.

COMMISSIONER MacKICHAN: I would expect it would have a substantial effect on stabilizing the domestic and other export markets too, in the light of such a large catch?

MR. HYLAND: Yes. Prior to the de-control of canned salmon imports by the United Kingdom, the industry had, I would say, at least two or three years supply of Sockeye salmon on hand. It would



have taken at least two years to liquidate that, with very high storage and financing charges entailed.

COMMISSIONER MacKICHAN: In your illustration here I just didn't gather exactly whether this halibut that you quote at 28 cents -- that is a wholesale price?

MR. HYLAND: Yes, that is right; all these prices were wholesale.

COMMISSIONER MacKICHAN: They were all wholesale prices?

MR. HYLAND: Yes.

COMMISSIONER MacKICHAN: You mention in the second last paragraph -- the last complete paragraph, that the producer fisherman in British Columbia received a fair price for his production: would you comment on that?

MR. HYLAND: Well, it has been our experience that unless he received a price which he considered fair, he did not fish.

COMMISSIONER MacKICHAN: Just as simple as that?

MR. HYLAND: The record shows that.

COMMISSIONER MacKICHAN: Back again to the middle of that paragraph above, what were the benefits to be derived from a 7-day layoff?

MR. HYLAND: I imagine from the fisherman's standpoint it spread the fishing season over a longer period, and consequently you didn't get a large arrival of fish on the market at one time.

COMMISSIONER WALTON: Did that work out



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in actual practice?

MR. HYLAND: Yes, they were not allowed to go out. At one time a fisherman would make a delivery and re-outfit his boat and turn around and go out and catch some more fish. Under this, they have to tie up for seven days.



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COMMISSIONER MacKICHAN: On the other hand, did it leave the plants without sufficient product?

MR. HYLAND: Yes, we had these periods when we could not get enough fish and there was less fish went on the fresh fish market as a result of it.

COMMISSIONER MacKICHAN: There were other season regulations by regulation for biological purposes?

MR. HYLAND: Not in the halibut industry.

COMMISSIONER MacKICHAN: I am sorry, that is salmon.

MR. HYLAND: Yes, and we do not have the situation in this reference here, it is for halibut which is a quota fish, they lay down different quotas that so many million pounds shall be taken, but they do not prescribe fishing periods, and fishermen can fish seven days a week around the clock. The control is on the total amount. On salmon in the salmon fishery the conservation regulation is in different form, there are no quotas, but the fishery management is to insure that sufficient fish go up the streams to spawn to insure the future.

THE CHAIRMAN: If there is a quota on the total catch, this quota is not apportioned between the boats, of course?

MR. HYLAND: No.

THE CHAIRMAN: So, the tendency would be for people to get out as quickly as possible, and



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get as large a slice of the quota as they could?

MR. HYLAND: Yes, the only division of the total quota is between Canada and the United States, it is an international commission, and the total allowable catch on the halibut is divided between the two nations.

THE CHAIRMAN: But the fishermen in each nation compete for a share of their national quota, it seems to me that this would tend to concentrate the catch in the early part of the season, everybody getting out to try and get as much as they can?

MR. HYLAND: Yes, the first trips there is no difficulty then, but they stagger them, they do not even all go out at the same time.

THE CHAIRMAN: Well, coming back to this week lay-off in the absence of this regulation, there would be a tendency with the quota for people to get out as quickly as possible and catch all the fish they can, so they could get the largest part of the quota, this would tend to concentrate the catch in a relatively short period of time?

MR. HYLAND: Yes.

THE CHAIRMAN: This is not a very good situation, is it, it is preferable to have it spread out.

MR. HYLAND: Not in our case, no.

THE CHAIRMAN: Why?

MR. HYLAND: Because the fishermen feel that if they can keep the fish in greater demand, I mean keep the others out of it, everybody, the



plant capacity and the crews standing by waiting for fish, it will increase the value of the fish.

THE CHAIRMAN: All right, in the absence of this regulation you would have this concentration of catch in a relatively short period of time, your plant was geared to this amount of production?

MR. HYLAND: Yes.

THE CHAIRMAN: But what do you do when the fish does not come in?

MR. HYLAND: We have to get along as best we can with what fish we can acquire. In all our plants crews are on a full-time basis, and we would have to keep them on the payroll with really insufficient raw material to work with. One of the other costs is in connection with halibut which we acquire from camp operations where we must place a camp out in the fishing ground and service it. Well, I understand we can put the fish out, we are going to acquire from that means the catch in a six-week period, the costs in acquiring it get much less than if we keep it out for double that time.

THE CHAIRMAN: Is most of the halibut sold fresh?

MR. HYLAND: No, most of it is frozen.

COMMISSIONER WALTON: You have a negotiated price when you start at the beginning of the season?

MR. HYLAND: Not with halibut, it is an auction fish.

COMMISSIONER WALTON: That is held at the various canners, if they are waiting, is there



sort of an auction between them?

MR. HYLAND: Yes, it is competitive bidding, and as the trips of halibut come in, those processors -- incidentally, it is only used in the fresh and frozen fish market in Canada and the United States, and the adjustments of the buyers, of course, is caused by the market conditions prevailing in both Canada and the United States.

COMMISSIONER MARTIN: On page 2 you refer to the help your company gives to fishermen in financing, do you charge any interest on those moneys advanced?

MR. HYLAND: Yes.

COMMISSIONER MARTIN: And you refer to the cost of writing off all bad debts, would it mean in absolute favours or sales, for instance?

MR. HYLAND: I do not have that actual figure, Mr. Martin: It could be expected from our records, but it is a cost of production to us, we have never related it to the sales.

COMMISSIONER MARTIN: But you mention it as a cost of some importance?

MR. HYLAND: Yes, it is a cost of acquiring fish.

COMMISSIONER MARTIN: And on page 9 you state that the average net profit of your company over the past 10 years has been sufficient, what would you consider would be the return on investment as referred to at the bottom of the page?

MR. HYLAND: Well, just for the period that



is being reviewed, our company as a corporation eliminated rather substantially operations in the United States. We were only able to earn 1.796 per cent on our sales and we find that in comparison with other suppliers to the food trade, that this is a very low figure.

COMMISSIONER WALTON: Just a little curiosity, this year was a very big run for salmon, and you have been able to export to Britain. You say the processors and fishermen were very happy with this large run, but you apparently have not been very happy about fish consumption in Canada, and I was wondering if at a time of year like this, I assume it would perhaps reduce your unit cost, will that cost be able to be passed on say for canned salmon to the Canadian consumer?

MR. HYLAND: Well, in our case it was reflected fairly quickly, we reduced our price of canned salmon of the sockeye species by 5 per cent in early September.

COMMISSIONER WALTON: Because while there have been no new processors during the last few years, would I be correct in assuming that the tin of salmon that was processed five or ten years ago, is essentially the same today?

MR. HYLAND: Yes, the product is the same, exactly the same.

COMMISSIONER WALTON: The tin is the same size?

MR. HYLAND: Yes.



COMMISSIONER WALTON: But the cost has gone up a lot?

MR. HYLAND: Yes.

COMMISSIONER WALTON: I was wondering if that might not be one of the factors on our fish consumption that seems to be losing the race to poultry and beef?

MR. HYLAND: We have attempted to relate the price of our product with this volume, but we find the volume remains fairly constant. Speaking of our own company irrespective of the price, we have found as an industry that, speaking of a full case of sockeye which is 48 pounds in half-pound sizes, some years ago we achieved our maximum Canadian consumption of that product, it went over 400,000 cases a year. That was a period when the case was selling in a range of \$28 to \$33, but today it is in a range of \$38 to \$40, and the consumption is less. We can no longer purchase a case of salmon to sell at a price which was created at a 400,000-case consumption.

THE CHAIRMAN: What sort of increase in sales would you expect to get from the 5 per cent cut in price you have made?

MR. HYLAND: Well, I think it is -- we do not know yet the reduction has been in effect only for a little over two months, and during that time there have been fish marketing conditions, I mean, when the British market opened up, Canadian buyers, some of them anticipated our price would go



up again, and they stepped up their buying, so we had an initial increase, but that is not in consumption. The real test is, will the housewives increase their use of canned salmon? In our opinion the fish is not sold until somebody eats it.

THE CHAIRMAN: Did you know of the opening of the British market at the time you made the reduction in price?

MR. HYLAND: No.

THE CHAIRMAN: You must have had some basis for setting it at 5 per cent?

MR. HYLAND: Well, it just happened to be 5 per cent. We knew that with the tremendous pressure on the price structure, as a result of a limited market, we just had Canada and the United Kingdom under a licence system that the very weight of the supply situation was probably going to bring the price down.

THE CHAIRMAN: You do not make any case as to the additional quantity you sell as a result?

MR. HYLAND: No, I would not care to guess, because there are a lot of other influences.

THE CHAIRMAN: I find difficulty in knowing why you made it 5 per cent.

MR. HYLAND: We did not think of it as 5 per cent at the time -- our price was \$40, and I thought we would have to get it down to at least \$38, and it just happened to be 5 per cent.

THE CHAIRMAN: Well, what I am wondering is, what business judgments your company operates on,



when you make a cut of a certain amount in price, is it related to the price at which you think you will move it?

MR. HYLAND: No.

COMMISSIONER KIDD: In your discussion of costs and the cost pressures, you do not give any statistics, can you supply us with information in respect to the various costs that go into producing of a case of salmon, and how they have changed over a ten-year period, for instance, labour costs, overhead, raw materials and so on and so forth, as a percentage of the selling price on a case of salmon?

MR. HYLAND: We have supplied the Commission with all of the financial information requested in the questionnaire, and I think that an examination of those figures would probably divulge the type of information you want.

COMMISSIONER KIDD: I notice your price went up approximately 64 per cent in a 10-year period, which seemed to be about the same increase as some of the other costs. I was wondering if you could discuss that any further this morning.

MR. HYLAND: Only in a very general way, because it was stated where we supplied the financial information requested. Just talking again about sockeye salmon, we find that the increase in cost of raw fish alone and cans and boxes and direct labour over the period has been \$7.82. The total direct costs, that is before our overhead costs, depreciation or all of the other costs which have



to be made. The total increase in those costs for a case of sockeye salmon was \$7.82. At the same time the increase in our selling price was \$6.64, so we did not recover even the direct increase in fish, cans and boxes, and direct labour, and we had to absorb all of the other costs. In other words, our margin has been reduced substantially.

COMMISSIONER KIDD: The cost of cans seems to have gone up in about the same relationship as the cost of salmon, so you have been able to offset that with your price increase?

MR. HYLAND: No, you cannot actually generalize on that because there are so many products. In some cases we had and other cases we have not recovered, but examining it on a profit and loss basis, we find our margin has been reduced, our profit margin.

COMMISSIONER KIDD: You say there is difficulty in attracting capital, but I believe your particular company has only issued about 40 per cent of its authorized shares. Does that not seem to be somewhat of a contradiction to your statement here?

MR. HYLAND: Well, I think you will find on examination of many companies, that they have a lot of unissued stock. I think you will find also that when you can buy the shares of our company at, I think their book value is \$25 or \$26, but you can buy them readily on the market at \$15 or \$16, and that is not a good basis on which to issue new stock.

COMMISSIONER KIDD: It seems to indicate a



pretty good return, you have your protection of the equity, and the dividend and looking at the dividend you seem to have it both ways.

MR. HYLAND: Well, I think the opinion of our shareholders is that the dividend has not been attractive as compared with other investments.

COMMISSIONER KIDD: You say your profits have been insufficient, could you give us anything on the change in the rate of profit to investment over the past 10 years?

MR. HYLAND: Again I would say that the information is contained in our answers to the questionnaire. The statement on our profit factor is, as I mentioned at the time, was related to our knowledge of what other food suppliers are able to net on their sales to the food trade. I have no figures for Canadian companies, but some of the United States companies in similar businesses by comparison with us are very much higher. For instance, it is reported here that the Campbell Soup Company last year did 6.79 per cent of its sales. Another large canning company in the United States, California Packing Company did 2.59 per cent, which is quite a bit better than we did. Quaker Oats Company in the United States did over 4 per cent.

COMMISSIONER KIDD: I was thinking more of return on investment, because in the food industry, I am quite sure you recognize that there is, relatively speaking, a low return on sales, and quite often a very high return on investment.



MR. HYLAND: Well, it appears to me you want to create comparisons. The figure we always look at and try to improve is our percentage on sales.

COMMISSIONER KIDD: How does the investor look at it?

MR. HYLAND: Perhaps on what dividends he can secure on his equity. Last year I think our shareholders in spite of a loss we paid 50 cents a share on a share which had a book value of \$25, and a market value of \$16. He could do much better in putting money into government bonds.



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COMMISSIONER KIDD: Was that loss in 1957?

MR. HYLAND: Yes.

COMMISSIONER KIDD: But you increased the dividend on the Class B shares by 50 cents?

MR. HYLAND: No, we did not increase it. We reduced it.

COMMISSIONER KIDD: It ran up from 75 cents to \$1.25.

MR. HYLAND: No, the trend in our B shares over the years has been from \$1.25 to \$1.00 to 50 cents.

COMMISSIONER DRUMMOND: Mr. Hyland, you said on page 2 "We must provide our customers with a variety and quantity of fishery products at a price which they regard as good value by comparison with competing goods."

Is it not a fact that the per capita consumption of fish is much higher in several European countries than it is in Canada?

MR. HYLAND: Yes, it is 60 pounds I believe in the Scandanavian countries. It is over 40 pounds in the United Kingdom.

COMMISSIONER DRUMMOND: What has been the trend in recent years in the per capita consumption of fish in those countries? Has it been upward or downward?

MR. HYLAND: I don't know the answer to that question, Mr. Drummond. I would be guessing. I don't want to do that.

COMMISSIONER DRUMMOND: Have you a general



idea of the price differential between the price at which fish products sell in those countries and the prices at which the competing products sell?

MR. HYLAND: Yes, it is my general impression that fish in those countries is priced relatively attractively with other protein foods. I am also under the impression they do not have the selection of other protein foods that we enjoy in this country.

COMMISSIONER DRUMMOND: Your general feeling is that the price of fish is relatively much more attractive there than here?

MR. HYLAND: Yes.

COMMISSIONER DRUMMOND: Do you feel if it were possible to make the price very much more attractive here that would result in an increase in the per capita consumption in Canada?

MR. HYLAND: Yes, I think it would.

COMMISSIONER DRUMMOND: You think that price is really a dominant or the dominant factor?

MR. HYLAND: I wouldn't say it is the dominant factor, no.

COMMISSIONER DRUMMOND: It is one of them?

MR. HYLAND: It is an important factor.

COMMISSIONER DRUMMOND: You mentioned some place near the top of page 8 -- you were referring to the pre-packaging and extra processing and so forth, and you said you followed this trend yourself, and you say "Had we not done so, competitive meat and other protein products would have made serious inroads into consumer markets at the expense of



fishery products". I am just wondering if you had not done so, if you had gone convert to this general trend and had insisted on selling your fish more or less in the form that you first showed us here, and accompanied that particular form of fish with the low price that goes with it when during the period of the last several years the price at retail for the competing products was so high, what do you think the effect on consumption of fish might have been?

MR. HYLAND: One of the factors which promoted the sale of fish in this form was, we had always recognized the great handicaps with the retailing of fish in this form.

It is true that certain specialized retailers could handle fresh and frozen fish, but the development of one-stop marketing where the housewives did not go to the green grocer to shop, and they did not go to the fish shop. They did not go to the butcher shop. They bought all or a great majority of their food supplies at one place, also tended to promote the sale of packaged fish.

We found the retailers, the butchers particularly, did not like to handle fish in this form. It is a small part of their total business. They require special display facilities. They require a special block where they can handle fish, and quite frankly, we always encountered resistance at the retail level for good distribution of fish.

We found when we got fish in this form that



it was looked upon -- it could be handled at the wholesale level, and at the retail level, exactly as the other frozen products. Prior to that, frozen fish had always required a distributional set-up of its own. It had to carry all the costs associated with such a set-up, but here the fish comes in this form. It is grouped with all whole family of frozen foods at the wholesale level, and the retail level.

COMMISSIONER DRUMMOND: Assuming that it were possible to step up very pronouncedly the per capita consumption, and therefore the total sales of fish products in Canada -- in other words, your volume would be greatly increased. What effect would that increase of volume have on your several types of costs? First, on your overhead costs?

MR. HYLAND: Well, certainly the more fish we can sell within the overhead framework we have it would reduce the per unit costs, and also the more efficient we can sell within the distributional area, it reduces our costs of marketing and distribution.

We recognize that in Canada that the problem has geographical aspects. For example, I think that it is well known that on both coasts, for instance, in Vancouver and in Halifax, the per capita consumption of fish is at least twice the national average, because of the availability of a wider range of fish. People are more aware of fish than they are in the heart of Manitoba or Saskatchewan.



5 It is easier to service, and consequently they eat more fish.

COMMISSIONER DRUMMOND: You mentioned that the consumption in the United Kingdom was large?

MR. HYLAND: Well, there is no place in the United Kingdom that is probably more than 50 miles from the sea with an excess abundant supply of good fish. That is not the case in Canada.

COMMISSIONER DRUMMOND: Abundant supplies of good fish. Do you underline the word "good"?

MR. HYLAND: Yes.

COMMISSIONER DRUMMOND: Good and fresh.

MR. HYLAND: The consumers want good fish.

COMMISSIONER DRUMMOND: What effect would this increased volume have, if any effect, on the purchase of your various supplies, such as your tin cans, for example?

MR. HYLAND: I don't think there would be any appreciable difference there.

COMMISSIONER DRUMMOND: You are already able to buy those in sufficient volume to get a discount?

MR. HYLAND: Yes.

COMMISSIONER DRUMMOND: That would apply to your other supplies too?

MR. HYLAND: Yes.

COMMISSIONER DRUMMOND: You stated at the beginning yours is an integrated operation. The fish require processing and marketing organizations. Does that mean you do any of your own fishing?

MR. HYLAND: Yes, we do some. We say we



do our own fishing. It is with our own boats, but of course, we have to crew those boats, and our participation is in the ownership of the boat. We do not hire men, as it were. They are hired on boats. They just use our capital equipment.

COMMISSIONER DRUMMOND: When was your company actually started?

MR. HYLAND: In its present form, Mr. Drummond, it was incorporated in 1928, but at that time it was a merger of many companies with their origin back to, I think, 75 years ago or more.

COMMISSIONER DRUMMOND: What I am wondering about is whether or not the operations were as integrated from the beginning as they are today?

MR. HYLAND: No.

COMMISSIONER DRUMMOND: Or have they become more so?

MR. HYLAND: They have become more so.

COMMISSIONER DRUMMOND: Are they becoming more so in very recent years?

MR. HYLAND: No, I don't think so. I think we have reached the level of integration which we consider as being most efficient.

COMMISSIONER DRUMMOND: I want to get clear on the first question that Mr. MacKichan asked. You do, or do you, some of your own wholesaling?

MR. HYLAND: We do to a very minor extent relative to our total Canadian business.

We have a wholesaling division in British Columbia. It is in Vancouver. It services the



retail and restaurant outlets in British Columbia and in Alberta, but we have nothing -- no wholesaling functions in any other part of Canada.

COMMISSIONER WALTON: Is there any recovery of the residue of the fish that is not edible after you do the processing?

MR. HYLAND: Yes, we recover what would otherwise be completely wasted in the form of oil and meal but it is just, of course, recovery because we would not buy that material at the value which is placed on it for edible purposes.



COMMISSIONER DRUMMOND: I suppose this would be in your answers to the questionnaire, but could you tell us, generally speaking, how big a factor in your costs your depreciation of plants and equipment is? You refer to the fact that new plants and equipment have required a high rate of depreciation, and I wondered how important a part that was in your costs?

MR. HYLAND: It is an important part to us. I haven't got the figures available in the questionnaire with me for British Columbia Packers Limited as a corporation without the subsidiary operations. I know by memory the depreciation amount in the consolidation is between \$900,000 and \$1 million a year.

COMMISSIONER DRUMMOND: With respect to your wage rate increases, you refer to the fact they have risen pronouncedly and continuously; I don't think you refer any place to the fact that there has been any increase in the productivity of labour: What is the situation there?

MR. HYLAND: Well, in our business, the precise productivity of labour is difficult to measure. I imagine that is the situation in many industries. The only measure we can apply to it, is the actual cost per unit, and we have found the labour cost per unit has increased over what it was nine years ago. The assumption we take is that the productivity has not increased at the same rate as the rate of pay.

COMMISSIONER DRUMMOND: That is in terms



of standard dollars?

MR. HYLAND: Yes.

COMMISSIONER DRUMMOND: On this point which Mr. Kidd raised on page 9, where you talk about the earning performance of the industry not being sufficiently attractive to get in capital, the question is this: If it is a fact that past earnings have not been sufficient to attract new capital, how is it they were sufficient, apparently, to permit the investment?

MR. HYLAND: Well, by withholding the payments of what profits we were able to make from the shareholder in the form of dividends, we had to put it back to keep the company in the situation which, in the opinion of the management, was required.

Just on that point, our company has facing it today a serious decision involving the construction of new facilities at one of our locations. We have an old plant; it is almost 50 years old. In terms of handling fish it is obsolete and costly -- we recognize that. To replace those facilities to handle the same volume of fish would entail what looks like a million dollar capital investment, but we cannot see how we can justify it on what we will earn from the output of that plant.

COMMISSIONER KIDD: A moment ago you were talking about profits and loss and dividends, and you said that your dividend had increased in 1957?

MR. HYLAND: Yes.

COMMISSIONER KIDD: And you had a deficit



for 1957?

MR. HYLAND: Yes, the operating year, 1957.
The financial year ends at the end of March.

COMMISSIONER KIDD: March 31?

MR. HYLAND: Yes.

COMMISSIONER KIDD: According to the
Financial Post survey of industrials, your company
earned \$2.39 on the A shares and 91 cents on the B
shares in 1957, so that doesn't indicate a loss, does
it?

MR. HYLAND: Well, if they were talking
about the year ended March 31st --

COMMISSIONER KIDD: They were.

MR. HYLAND: 1957?

COMMISSIONER KIDD: Yes.

MR. HYLAND: Yes, we did have an earning
that year, but the year ended March 31, 1958, we had
a loss.

COMMISSIONER KIDD: Then, we were talking
at cross purposes, because my question was, how could
you have a loss if you increased your dividends in
that year from 50 cents on the year ended March 31st,
1956 to \$1.35 in 1957.

MR. HYLAND: No, but that is not the correct
information.

COMMISSIONER KIDD: Well, you had a deficit
after the dividend was paid?

MR. HYLAND: Yes, but our dividend declar-
ations on class B shares are made annually --
usually about August of each year -- August, 1956, 1957



and 1958; and in August 1956, I think there was \$1.25, and in 1957, \$1, and in August 1958, 50 cents.

COMMISSIONER KIDD: Well, all I can say at the moment is that the Financial Post survey of industrials indicates the \$1.25 was paid for the fiscal year ending March 31, 1957. However, that is not too important a point, I wouldn't think at this stage.

MR. HYLAND: No, our declaration of dividends is related to the year past, and our estimate of the year ahead, and they reflect the experience of the previous year.

COMMISSIONER COUVRETTE: It could be of importance in this inquiry, because it seems your earnings -- your profits are dropping a little, are they? That is the trend, so that would tend to diminish the spread: That is one case where lower profits would decrease the spread; is that right?

MR. HYLAND: That is correct. Our consolidated basis incorporating all our subsidiary companies, our net profit in the last three years has been reduced from \$1,470,000 to \$577,000 to last year a loss of \$181,000.

COMMISSIONER KIDD: Was that a loss on operations, or was it a loss after dividends had been paid?

MR. HYLAND: No, that is a loss on operations.

THE CHAIRMAN: Well, thank you very much, Mr. Hyland. We are very grateful to you.



Submission of
RETAIL MERCHANTS' ASSOCIATION OF CANADA, INC.

Appearances:

Mr. F.A.B. Rands	General Manager, National Foods Division
Mr. D.A. Gilbert	General Manager, Retail Merchants Association
Mr. J.D. Poole	Past President, National Foods Division
Mr. E.E. Bimm	First Vice-President, Retail Merchants Assoc.

--- EXHIBIT NO. 83: Brief of Retail Merchants' Association of Canada, Inc.

THE CHAIRMAN: The second brief this morning is that of the Retail Merchants' Association of Canada, and will be read by Mr. Rands, the General Manager. I think you might read your brief into the record, and then we will have our usual mid-morning break.

MR. RANDS: Thank you very much. Mr. Chairman, and Commissioners of the Royal Commission on Price Spreads of Food Products, our brief today is presented on behalf of the Retail Merchants' Association of Canada, Incorporated, and the National Foods Division of the Retail Merchants Association of Canada, Incorporated.

We appreciate the opportunity of appearing



before the Commission to present a brief on behalf of the independent retail food trade of Canada. We consider it an honour and a privilege to speak for this very large group of retailers who account for approximately 57 per cent of the retail food business in Canada. These same retailers occupy approximately 94 per cent of the food stores of the nation and supply the food needs of the people in all corners of the country from sparsely settled areas to large urban centres.

Who We Are: At the outset it is perhaps well that we clearly identify ourselves. We are an association of Canadian retailers, who were organized in 1896 and incorporated by special Act of Parliament in 1910. We are a voluntary organization with membership in all parts of Canada. Our membership is in the thousands. We are the only retail association in Canada which represents all branches of the retail trade.

We, because of our far-spread membership, are charged with a serious responsibility because, upon the wisdom of our decisions, depends our influence for good or bad. Our board and executive officers are aware of this responsibility and exercise care in making public pronouncements.

We fight for free enterprise and fair trade practices because unfair price discrimination and unfair business practices result in: Injury to independent retailers, concentration of distribution in a few hands which is monopolistic in tendency



and destruction of competition. None of these is in the consumer interest.

We believe that any study on price spreads must temper its final decision by taking into account the economic conditions created by the use, in the preparation of food for consumer purchase, of all today's labour and materials. These include transportation, processing, packaging, distribution, promotion, etcetera.

Radical Changes in Food Distribution: The retail food industry of Canada has radically changed during the last few decades; many of these changes have resulted in increased production per worker. This in turn has offset, to some extent, higher commodity prices and wage costs.

(a) Worker Productivity Up: Agricultural Marketing Service Bulletin January, 1958, issued by the United States Department of Agriculture, reported:

"Hourly earnings of workers engaged in marketing food were more than three times as high in 1957 as in 1939. However, unit labour costs rose only 2.3 times. This shows a pronounced rise in worker productivity. Sales per worker in retail stores rose from \$23,000 in 1939 to \$38,000 in 1956 in terms of 1956 dollars.

As total labour costs went up, the number of persons employed in processing and distribution activities also rose."



Food stores, to a large extent, have curtailed or eliminated credit and delivery services; self-service has gradually and steadily reduced clerk service. This is as true in many independent stores as it is in chain stores.

(b) Housewives' Habits Change: Women have long since given up the idea of spending half their lives in the kitchen mixing and grinding things together and converting raw foods into appetizing meals. A large percentage of women are today working in business and industry and they require faster service in stores, such as pre-packaging and in the kitchen more "minute" foods. Today 1.5 million females are working outside of the home. This is one-quarter of the labour force. Only half of these women are single. It is not surprising that the Canadian woman looks for time-saving features in food products and is prepared to pay a premium for them. Of course, there will always be those who pride themselves on old-fashioned cooking, but they are getting fewer all the time. A generation ago the average Canadian housewife spent 5.5 hours a day in the kitchen preparing food for a family of four. Today meal preparation takes only 1.6 hours per day.

In years gone by there was not the tremendous consuming power we have today so there was no need for great quantities of foodstuffs. Families got along with fewer things, just the necessities. By comparison with today's standards of living these would be considered the barest needs.



(c) Demand for Farm Products Down -

Manufactured Products Up: As the per capita income of the nation went up, the demand for farm products increased but not to the same extent as the demand for manufactured products. As the per capita income continued to increase, it brought great changes in the way people live and, at the same time, turned the consumer's preferences towards better and more expensively prepared things.

During the low income periods, consumers are more likely to economize on amounts of marketing services bought with their foods and to make more purchases direct from farmers and other groups that will keep down their cash outlays for food. Thus in times of low national income the spread narrows. During buoyant times direct farm-to-consumer sales decline in importance.

Cost of Living Index: To comment on the Commission's concern about retail food prices, as reported in the government's cost of living index, it is our opinion the price index cannot measure what housewives really spend in their grocery stores. The index measures the relative price level of a certain fixed market basket of food. For this comparative statistical purpose the government always checks the prices of a limited number of items. But the housewife does not have to buy the products included in this statistical market basket. She makes her selection, not necessarily from these, but from a variety of more than 6,000



items, and she knows which ones to buy.

By intelligent shopping she can buy her food requirements today at prices which are not higher than a year ago. In fact, she can now buy many items which are lower than last year.

Dr. Stewart, would you like me to read Exhibit A?

THE CHAIRMAN: Not unless you wish to. It will be included in the transcript.

MR. RANDS: Except to say, perhaps, that it shows 53 items, and this was done by an outside organization, and it was found that 30 per cent had increased in price, 38 per cent had decreased in price and 32 per cent showed no change. We believe that this is pretty well the average situation. You will note that it was taken by an independent survey, and we have not tried to cover up any of the things.

The growing urban population increases distribution and other services required; this change may not be reflected in the cost of living index. In general, urban families tend to buy more processed foods and in smaller units than rural families. The increased urbanization of our economy has increased the marketing services performed per unit of product marketed and thus decreased the farmer's share of total food expenditures.

Farmer Needs to Study Consumer and Help Promote: Primary producers need help not subsidies. What is needed is a greater appreciation by primary



producers of today's consumer demand - a willingness to work wholeheartedly with the processing and distributing trades to the end that the major problems facing the producers are solved through mutual understanding.

The situation with Manitoba fishermen early this year will serve to illustrate.

In a joint campaign the Manitoba Government, the fishermen, the fish companies, independent food stores, department and chain stores working together as a team disposed of a surplus of 500,000 pounds of frozen white fish during a three-week period.

We are quite sure a consumer survey, if undertaken by the Commission or the industry, would indicate that consumers prefer fresh fish to frozen. On the other hand, the retailer has discovered that in most areas he cannot sell fresh fish in any volume. Actually the housewife seems to be undecided. It is our opinion the producer, by some judicious promotions, could persuade more consumers to purchase the excellent frozen fish which is available and which is much more readily handled at retail.

The farm income is declining because farmers do not understand how the industrial side of the economy does things. The farm community is reluctant to admit that quality control, product promotion and research are essential measures in today's economy. These things are so broadly accepted in the industrial and commercial world that



they are taken for granted. In other words, there has been a breakdown in transmitting information between urban and farm business areas. The distributing industries build prosperity and new markets with these techniques, while the primary producer is prone to believe the disparity in progress is the result of unfair manipulation of primary products.

Research: It is common knowledge that not so many years ago the only fibres used in manufacturing were cotton, wool, flax, hemp and silk, and soap was made from natural oils and fats. Adhesives came from starch, glue and plant gum. In those days too shoes were made almost wholly from leather. The base of paints was vegetable oils, and alcohol came from molasses and corn. Today, the chemical and petroleum industries invest four to seven per cent of their annual gross sales in research; all manufacturing invests approximately three per cent.

There are perhaps limits to how far industrial research can make inroads on the traditional farm markets. But it is significant that research has produced revolutionary changes in the processing of food products. Five minutes at the checkout counter will show a parade of foods unknown -- in present form -- to housewives in 1929. A shopper pushes a heaped cart to the checkout. In it could be found a pre-cut, pre-wrapped rolled roast of beef, boxes of frozen vegetables and frozen fruits that are not in season,



a giant can of chow mein, tins or jars of baby foods, sliced bread, canned soft drinks, pre-mixed French dressing, raw vegetable salad mix, half-cooked rolls, frozen meat pies, canned new potatoes, packaged fresh vegetables (already trimmed and weighed), instant coffee, one-serving boxes of cereal, and frozen orange juice.

Then, on Exhibit B, we give a list of quite a number of other items which are in the minute food class.

The primary producer should now realize that the consumer, including himself, is the one who forces continued research and quality control.

The consumer demands freshness, attractive packaging, consistent supply and many other things. The consumer will pay for them as events have already proven. But he won't buy without them. Someone along the line of supply has to put these things into the product; if the farmer cannot, someone else must.

Right now it is the farmer who needs help, who needs immediate benefit from a vastly greater interchange of ideas and knowledge between farm and factory. Some day it could be the other way around.

What Enters Into the Dollar Spent on Food:
The consumer in buying her food is not buying merely the product. In her purchase she is paying not only the product cost but her share of the cost of processing, packaging, the cost of research to



develop new uses for primary produce, the wages of truckers, railwaymen, clerks of wholesalers and retailers, factory workers -- all who shares in bridging the gap between the primary producer and the cashier's desk. She is also paying a share of the income taxes of all the foregoing, which also includes their contributions to old age pensions, unemployment insurance premiums, baby bonus and other perquisites of the Canadian way of life. She is also paying for the cost of price supports.

Increased Cost of Manufacturing and Retailing: The Dominion Bureau of Statistics, in its 1956 general review on foods and beverages, reported this group accounted for 17.7 per cent of the selling value of factory shipments of all the manufacturing industries of Canada in 1956. Of the total estimated value of \$21,636,748,986 this major group's share was \$3,826,702,255. A total of 8,023 establishments employed 183,008 persons who received \$531,634,259 in salaries and wages. In comparison with 1939 there has been a decline in establishments of 1,064, an increase in employees of 62.4 per cent and an increase in salaries and wages of 346 per cent.

To make a comparison with 1951 and the 1956 figures quoted above, there has been a decline of 365 establishments, an increase in the number of employees of 6.1 per cent and an increase in salaries and wages of 35.3 per cent.

A factor which is contained in those figures that cannot be overlooked, and which adds to the





increased labour costs, comes from the unionization of the food processing and distributing industries. There is now an established work day and work week with provisions for overtime payments and fringe benefits.

These changes in labour relations and costs have brought changes in retailing methods and practices through the adoption of new efficiencies and innovations, which make obsolescence a very real factor in marketing. Customary depreciation allowances which consider only the use value and physical deterioration of plant and equipment are no longer adequate.

A modern retail store to adequately serve its patrons must have a good location, have plenty of parking space and be equipped to properly handle an ever-increasing variety of pre-packaged and processed foods. As an example frozen food sales have about doubled in the past five years and account for approximately 1-1/2 to 2 per cent of overall store sales in many outlets.

Today's store must be attractively painted, well-lighted and clean.

In order to be in a position to offer these up-to-date services and keep abreast of technological advances, marketing and processing firms are spending millions of dollars annually. This kind of outlay is expected for modernization and plant expansion as well. Much of this new expenditure is being financed out of funds set aside



from depreciation allowances and retained profits.

Higher transportation costs also have contributed to rising marketing costs. Railroad freight rates are up about 54 per cent and truck rates have risen as well, and the paper said last night there is another 17 per cent increase on the way.

Business taxes paid by sellers are another item that figures largely in the cost of marketing farm products as well as all other commodities. Taxes have kept pace if not exceeded other cost items in the marketing bill. Property, business, sales, corporation, and personal income taxes are the main source of about \$8,600,000 collected by federal, provincial and municipal governments in 1957. This is approximately 25 per cent of the \$31,443,000,000 gross national product.

If we assume that taxes collected by the various government agencies are distributed among industries in approximate proportion to the dollar volume of sales, the share borne by food would amount to roughly 20 to 25 per cent of the total cost of producing, processing, and marketing food.

Pricing: In these days of keen competition some may wonder how prices are arrived at and who sets prices.

The law of supply and demand establishes the retail prices. Thus the retail trade sets its consumer price at a figure in relation to the cost factors, and subject of course to competition.



The statement has been made that there is a reluctance to compete pricewise among retailers in the food industry. We believe this to be far from the facts.

Severe competition between independent stores and chains has kept the profit margin thin. Preservation of the vigorous competition in retail food distribution which now exists for the benefit of consumers is the biggest job food people have ahead of them. Too many people take present competitive conditions in food distribution for granted. Competition is a living thing and must be nurtured and cared for; otherwise it will perish. This is the only effective means of keeping food prices reasonable. Competition requires competitors. This means that independent food stores are indispensable to protect the public against monopoly. There is a growing concern among independent food retailers across the country about the increasing concentration of retail food store sales in the hands of a few nationwide firms.

A successful well-operated business leaves in the business a portion of earnings each year. This is a standard accounting practice and this so-called reserve or owner equity is almost without exception tied up in new equipment, expansion and/or inventory. It would be a sorry day for the merchant if he had to shave his net profit picture to a point where his living used up the entire earnings of his business and jeopardized his



competitive position.

Giveaways: In our submission to the Joint Parliamentary Committee on Capital and Corporal Punishment and Lotteries on Tuesday, March 15, 1955, we said in part:

"The Retail Merchants' Association and National Foods Division are in favour of and support every sound practice which will result in bringing goods to the consumer at the lowest possible cost. The simple fact is that lotteries, giveaways, prize draws and similar things are, in most instances, substitutes for a reduction in price. They are excuses which are often used for retaining the price of articles and actually replace possible reductions with such substitutes as TV sets, automobiles, radios, and so forth."

The Joint Parliamentary Committee on Capital and Corporal Punishment and Lotteries in its final report to Parliament on July 31, 1956 on Lotteries stated:

"(e) Advertising Contests

"31. The Committee noted the prevalence of a great variety of advertising and promotion contests in the nature of lotteries. These contests are conducted on business premises and by means of press, radio and television. Because the present provisions are so uncertain in their effect, difficulty





"has been experienced in controlling such contests. Several problems may be mentioned. The present section prohibits the disposal of goods by any game of mixed chance and skill, but does not prohibit the award of money prizes. In most commercial contests, doubt exists as to whether consideration is given by the contestant and, for the reasons outlined in paragraph 28, it is difficult to secure a conviction in such circumstances. In other cases doubt exists where the final award of the prize is made dependent upon some alleged exercise of skill although in fact the winner is selected by chance; an obvious example being where a name is drawn and the person is required to answer an extremely simple question to obtain the prize. There are other contests in which skill ostensibly plays a part but which in fact are conducted like lotteries with the award depending almost solely on chance. An example is the completion of an advertising slogan where the winner is chosen by casual selection from among thousands of contestants. Still other contests depend for their apparent legality on the completion of some fictitious or nominal purchase or sale when in fact a winner is selected by lot. An example is afforded by the 'photo-nite contests' in vogue in some motion-picture theatres.



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"32. The Committee considers that the prevalence of this type of advertising contest is not beneficial to the community. These contests are purely commercial in their inspiration and confer no social benefit. They appeal to the gambling instinct and, because they are so widespread, undoubtedly stimulate it. While commercial lotteries of this type are operated, it is and will continue to be extremely difficult to enforce prohibitions and restrictions against lotteries organized by reputable groups for charitable and community purposes. Moreover, the Committee is impressed by the evidence that the operation of such commercial contests distorts the community's sense of values, diverts attention from prices and quality of merchandise, and may enhance the cost of goods. In addition, the Committee considers that such contests place the small, independent merchant at a disadvantage in relation to large stores which can absorb more easily the cost of prizes and the extra overhead expense which such promotions inevitably create.

"33. The Committee recommends that the laws prohibiting lotteries should apply equally to advertising and promotion contests which involve any element of chance."

Conclusion: Our conclusion is that the growing price spread is due less to inefficiency and high profits than to the Canadian way of life in a buoyant economy.

The Canadian housewife and her husband have

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decided that the service they are buying is worth the cost because of the increased variety of foods and the ease of preparation they provide.

The price spread may be reduced in time through the advent of automation and technological improvement in the processing and distribution of foods. In our opinion, it will not be brought about by a reduction in the services required by the housewife.

One of the good things about the Canadian way of life is that groups of citizens such as ours have an opportunity to express an opinion on a matter like this which affects us all.

May we again express our appreciation of the invitation to present our views to the Royal Commission on Price Spreads of Food Products established by the Government of Canada.

EXHIBIT A - PRICE COMPARISON

Prepared by Ambler Pricing Service

<u>Size</u>	<u>Item</u>	<u>Oct. 1957</u>	<u>Oct. 1958</u>	<u>Change</u>
3 lb.	McIntosh Apples	39	29	- 10
1 lb.	Green Beans	23	19	1 4
Head	Cabbage	15	13	- 2
3 lb.	Carrots	19	17	- 2
3 lb.	Cooking Onions	19	23	4 4
Doz.	Oranges size 113's California	59	75	4 16
10 lb.	Potatoes - Marsh	45	45	N.C.
4 pak	Tomatoes - imported	23	23	N.C.
1 lb.	Round Steak Minced	69	89	4 20
1 lb.	Blade Roast	52	59	4 7
1 lb.	Sirloin Steak	72	98	4 26
1 lb.	Beef Liver	49	49	N.C.
1 lb.	Pork Loin Roast	75	69	- 6
1 lb.	Pork Butt Roast	62	53	- 9
1 lb.	Side Bacon	93	87	- 6
1 lb.	Roasting Chicken - Frozen	75	65	- 10
Doz	Large Eggs	69	67	- 2
20 oz	Chocolate Cake Mix	35	35	N.C.
12 oz.	Corn Flakes	27	27	N.C.
48 oz.	Oats	39	41	4 2
1 lb.	Canadian Process Cheese	64	62	- 2
1 lb.	Coffee - Bag	83	75	- 8
6 oz.	Instant Coffee	1.17	1.13	- 4
1's	Sockeye Salmon	93	89	- 4
7 lb.	Cake and Pastry Flour	53	55	4 2
15 oz.	Choice Peach Halves	2/39	2/35	- 4



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

<u>Size</u>	<u>Item</u>	<u>Oct. 1957</u>	<u>Oct. 1958</u>	<u>Change</u>
3 oz.	Jelly Powders	3/29	3/29	N.C.
24 oz.	Strawberry Jam with Pectin	51	49	- 2
20 oz.	Orange Juice	2/29	2.37	+ 8
20 oz.	Tomato Juice	2/29	2/29	N.C.
1 lb.	Margarine	35	33	- 2
15 oz.	Beef Stew	29	31	+ 2
1 lb.	Instant Powdered Skim Milk	43	40	- 3
Roll	Toilet Tissue	2/27	2/27	N.C.
16 oz.	Peanut Butter	35	35	N.C.
15 oz.	Dog Food	2/27	2/27	N.C.
16 oz.	Sweet Mixed Pickles	33	33	N.C.
1 lb.	Paste Floor Wax	55	65	+ 10
11 oz.	Ketchup	25	23	- 2
1 lb.	Shortening	31	32	+ 1
5 lb.	Granulated White Sugar	58	48	- 10
Giant	Soap Detergent Powder	79	81	+ 2
Bath	Toilet Soap	2/31	2/33	+ 2
10 oz.	Tomato Soup	2/25	2/27	+ 2
2 lb.	Corn Syrup	31	31	N.C.
60's	Tea Bags	73	67	- 6
20 oz.	Beans with Pork	2/37	2/42	+ 5
15 oz.	Choice Cream Style Corn	2/29	2/29	N.C.
15 oz.	Choice Ung. Peas	2/29	2/29	N.C.
1 lb.	Frozen Cod Fillets	31	31	N.C.
15 oz.	Frozen Strawberries	39	39	N.C.
6 oz.	Frozen Blended Juice	2/33	2/46	+ 13
12 oz.	Frozen Peas	<u>23</u>	<u>23</u>	<u>N.C.</u>
TOTAL COST		\$24.04	\$24.28	

SUMMARY

Total Number of items	53	
Total items increased price	16	30%
Total items decreased price	20	38%
Total items "No Change"	17	32%



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

EXHIBIT B - PARTIAL LIST - MINUTE FOODS

Baby Foods

Quick Dinner Biscuits and Rolls

Cake Mixes

Pudding Mixes

Cookie Mixes

Pancake Mixes

Instant Oats

Instant Coffee

Instant Chocolate Drinks

Instant Frosting Mixes

Instant Powdered Skim Milk

Car Polish Spray

Instant Spaghetti Sauces

Liquid Detergents

Instant Tea

Frozen Desserts

Frozen Meat Pies and Dinners

Frozen Fish Fillets and Sticks

Frozen Soup

Frozen Vegetables

French Dressing

Frozen Juice

Fruit Juices

Vegetable Juice

Applesauce, canned

Cheese Spreads

Instant Laundry Starch

Powdered Cream

Quick Macaroni

Potatoes, Canned

Soup Mixes



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO



THE CHAIRMAN: Thank you, Mr. Rands.
I think perhaps we will have a short break now.

---Short recess.

THE CHAIRMAN: Mrs. Walton would like
to ask some questions.

COMMISSIONER WALTON: Perhaps there are
just a couple, Mr. Chairman, and they follow up a
question that I asked yesterday and that the Commis-
sioners have had submitted to them from various briefs.

Your Association has mentioned the need
of consumer education and producer education to busi-
ness practices, and I was just wondering if you had
any thought in your Association -- have they discussed
a form of machinery, or how this could be brought
about? We had suggestions from one of our briefs
yesterday that voluntary associations, the producer,
the consumer, should contribute some money and form
a board and that the government should subsidize.
Others say we should have a consumer bureau existing,
a government department, and others say a separate
consumer department with a cabinet minister, and
there have been all forms of suggestions, but every-
one has pointed out this need for consumer education
as a means of being better informed.

MR. RANDS: Well, we thought it would
be an industry-consumer problem. Perhaps it could
be assisted by government also.

COMMISSIONER WALTON: How would it be
financed?



MR. RANDS: We felt it should be something of industry itself rather than something that might become dictated by government, or something like that.

COMMISSIONER WALTON: How would you envisage financing it?

MR. RANDS: I would think it would start from the trade associations of the various groups such as the CAC, our own, and various associations of industry.

COMMISSIONER WALTON: Would you think that you could draw enough financial support? It is my understanding that while the segments of the industry may make a profit that the voluntary associations are travelling on a rather thin line.

MR. RANDS: It is true the associations travel on a very, very thin line but I would think industry in its own interest would be willing to aid materially in the education setup.

COMMISSIONER WALTON: And your suggestion would be interested groups of the different economic segments should associate voluntarily and see if they cannot ---

MR. RANDS: Yes, and, of course, if that was not possible I would think something would emerge from that getting together.

COMMISSIONER WALTON: There was one other, if I might ask it. From the consumer group yesterday a statement was made asking, or reiterating, I am not quite sure how it applied in the brief because



I have not got it here, that they hope that the retail price maintenance would not be reinstituted because they felt consumers had benefitted from the efficiencies and the different factors that came into play without the rigidity of a dictated price from the manufacturer to the retailer.

Now, on page 2 of your brief in your first paragraph you say:

"We fight for free enterprise and fair trade practices because unfair price discrimination and unfair business practices result in: injury to independent retailers, concentration of distribution in a few hands which is monopolistic in tendency and destruction of competition."

What would be the attitude of your Association -- and I think it would have to refer to the food industry and the retail merchant rather than the Association as a whole, but this has been a joint presentation. Do you think that the elimination of that practice has narrowed the spread in the food industry, or was it a factor?

MR. RANDS: I would think by looking at your trade index that it certainly has not narrowed it. It has not held down the cost of living index as far as food is concerned. Of course, we at no time have had very much price -- I mean, we have had no set prices generally, so it is pretty hard for us on our side to say it will do good or bad. We would think right now that it would show -- the mere fact that it



was not allowed has not helped in the overall picture. I would think if it had helped perhaps you people would not have been meeting. It does not seem to me it has done anything at all.

COMMISSIONER WALTON: One way or the other?

MR. RANDS: One way or the other; I do not think it has done anything.

COMMISSIONER MARTIN: I would like to refer to page 7, the middle of the page, where you say:

"Right now it is the farmer who needs help, who needs the benefit from a vastly greater interchange of ideas and knowledge between farm and factory."

Would you elaborate on that?

MR. RANDS: Yes, I think the farmer and the producer or the industry should get together and talk over their problems instead of being a bit standoffish with one another and talking, not belligerently, but rather with the idea of we sit here and you set there. They should get together and discuss their problems and try to reach some satisfactory solution. You have to bear in mind if your prices are too high you will kill the retail. Mrs. Consumer thinks at the time when they are too high that you are just out of luck. They should help the farmer with technological changes which would help the overall picture.

COMMISSIONER MacKICHAN: Mr. Rands, on what evidence do you base the statement on page 6 that the farmer is reluctant to admit that quality



control, product production and research are essential today?

MR. RANDS: Well, as far as the statistical information to pass on, we have not got it, but in speaking to various groups we get it from all parts of the country -- from retailers -- that that is the general reaction. If there is something wrong with the price it is somebody in between that is getting away with it, and it is not them. We take the producers' general feeling across the country.

COMMISSIONER MacKICHAN: I feel you are not talking with the better and more progressive farmers because farmers have gone a long way towards advocating quality control and demanded grade of hogs and cattle and, in fact, grading on lambs was touted in the east by the farmers against the wishes of industry. I think the farmer would go along with that completely; in exercising something he would be discriminatory and have different ideas.

About promotion, there are some things he goes for -- "It tastes better with butter", -- that is the result of a June checkoff, and there are other things like that. You have the same thing on pages 11, 12 and 13.

MR. RANDS: But are they doing it on their own or are they also discussing it with trade interests? I mean other trade interests besides themselves? The butter thing, is that in conjunction with other people who discussed the problems?

COMMISSIONER MacKICHAN: I presume it was



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but this is a check-off for the promotion ---

MR. RANDS: From the farmer, yes, I realize that. I would say in answer to your question that we had considerable correspondence from the Maritimes which led us to put in this particular part in our brief because the complaints were coming from the Maritimes to us.

COMMISSIONER MacKICHAN: Well, from my knowledge of farmers' organizations I would have a very large question mark here.

2 COMMISSIONER WALTON: Would it be fair to say that perhaps your independent retailer of food products has been getting some of these views from his customers?

MR. RANDS: Oh, definitely.

COMMISSIONER WALTON: That they know or at least they think they know that there is a certain grading, and when they buy, shall we say, the bruised apples and some of the merchandise which even came into their efficient stores, that they understand it at that price?

MR. RANDS: That is right. As a matter of fact we worked with CAC for a time and one of the others in a more indirect way, and there is a lot of complaint about grading of products. I think both of us sat on various panels -- members of our Association and members of CAC -- to try and get the farmers to do something about their own grading. It is graded interprovincially but this is something in the province itself and for some reason or other that seemed to



deteriorate in quality. I think perhaps if you will allow me I shall ask Mr. Poole here, who is a retailer in Woodstock, to give you some views. I think he appeared before one of the Boards.

MR. POOLE: That is a panel of potato grading and apples, but in my experience in the last two or three years grading has much improved. We have a much better inspection service and the grade we are getting of fruits and vegetables is much better than it has been up to two or three years ago particularly.

COMMISSIONER MacKICHAN: You are not getting quite to my point that the farmers are the people who resisted it. The main complaint we have here is that the grading is not carried through to the consumer.

MR. RANDS: I am sorry, I misunderstood your question. I am not saying that the farmer is against the grading. I am saying that we are aware of the problem, as I tried to point out -- that the farmer is not happy with what the other segments of the trade are doing about his products in that you are complaining too much about some of the grading regulations and you feel that you dare not be blamed. His end is not getting a fair share and everybody else is getting the gravy.

COMMISSIONER MacKICHAN: I am just literally translating your own statement that the farmer is reluctant to admit that quality control, product promotion and research are essential measures.



The farmer is pushing pretty hard ---

MR. RANDS: It is increasing. I would say it is getting better but that is from prodding from the trade. I would be quite frank in saying that is prodding from the consumer or the retailer or it would not have been done.

THE CHAIRMAN: On page 7, at the bottom and carrying over to page 8, your statement here implies that the consumer bears the full cost of these additional cost elements.

MR. RANDS: Yes, they are included in the cost of goods when she gets them.

THE CHAIRMAN: How do you reconcile that with the sharp falling of prices which is illustrated by the chart here which has, in fact, been represented to us by farm groups that to some extent this decline in farm prices is as a result of essential pressures on farm marketing as a result of increasing costs and other features in the marketing of farm products.



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MR. RANDS: Dr. Stewart, I am not in the business of buying and selling. I represent an organization and I do not believe that I am capable at the moment of giving you a direct answer to that question. Whether there is that downward trend or not I am afraid I am over my depth if I attempt to answer that question.

COMMISSIONER COUVRETTE: On page 5, the first paragraph, you bring up the point about the shift of population from rural to urban?

MR. RANDS: Yes, sir.

COMMISSIONER COUVRETTE: Indicating that urban families would buy more processed foods. Have you made any studies or has your Association made any studies as to the importance of that shift?

MR. RANDS: No, we have not.

COMMISSIONER COUVRETTE: Would you be in a position to elaborate a little and to tell us to what extent it might mean an additional spread?

MR. RANDS: Well, for one thing -- transportation -- it is a well known fact that transportation around the cities is much more costly than it is when you are on the highway, which you would know, sir, being in the wholesale business. It is much more expensive in the larger urban centres than it is outside.

COMMISSIONER COUVRETTE: What I am referring to is that since families, once they live in the city will buy more processed foods and the more processed they are the wider the spread?



MR. RANDS: Yes. Well, in fact ---

COMMISSIONER COUVRETTE: Would you be in a position to say about how much the percentage of more processed foods which may be sold on account of that shift of population?

MR. RANDS: No, I could not answer in percentage.

COMMISSIONER COUVRETTE: You could not answer that?

MR. RANDS: No.

COMMISSIONER COUVRETTE: There is another paragraph. This one is on profit. On page 11, the first paragraph: would you elaborate on that part especially where you say "It would be a sorry day for the merchant if his competitive position was jeopardized."

MR. RANDS: Would you like to speak about that, Mr. Bimm?

MR. BIMM: Well, Mr. Chairman, the point we are trying to make is that of the profits anyone would get in the business you would have to reinvest a greater percentage in trying to keep abreast of the modern trends in merchandising, new equipment and capital investment, and if that profit were reduced to a point which Mr. Rands suggests, if your profit was just going to keep you going and keep your family living, you would just go out of business because of the competition you have to meet; which means you have to modernize your methods and your business and your premises to be able to keep in business today.



COMMISSIONER COUVRETTE: Yes. Of course, we all agree that it would be a sorry day for the merchant but would this disappearance of competition, could it be called a happy day for the consumer?

MR. BIMM: Well, if the competition was reduced eventually it could work the other way, that is, if the thing got to be a monopoly. If there are fewer and fewer people in the industry it could be that it would tend to be a monopoly. If the control is in fewer hands the competition is less severe.

COMMISSIONER COUVRETTE: Meaning the merchant would have the sympathy of the consumer who would also be very sad?

MR. BIMM: Yes.

COMMISSIONER COUVRETTE: On the last page, the first paragraph, you express in your brief very strongly the opinion -- in the last two lines of that paragraph where you say in your opinion the reducing of the price spread will not be brought about by a reduction in the services required by the housewife.

MR. RANDS: Yes.

COMMISSIONER COUVRETTE: Which implies, I understand, that you rather foresee more and more services?

MR. RANDS: Yes.

COMMISSIONER COUVRETTE: For the future?

MR. RANDS: Yes, I do.

COMMISSIONER COUVRETTE: Now, it has been said in previous briefs and hearings that part of the spread is due to too much services, too much fancy



packaging and too much fringes, to use an expression, and you are a man in a position maybe to elaborate on a subject like that.

Would you give us your experience on the subject as to how this could be reduced, how much of "too much packaging" or "fancy packaging" or "too much fringes" is really intervening in the marketing process?

MR. RANDS: Well, I think that actually, as we said to this Commission, the way we are operating at the present time and "Miss Consumer" is the one -- I heard it said yesterday she was not demanding these things. I think that was in a brief, and it was more or less changed to "She would like them" or "She would like to have them". I think the proof of the pudding is in the eating and the womenfolk and the menfolk too are buying these products because they are easier to handle and give more leisure time, and the more women who go to work in industry, which has been increasing, there is going to be more demand for these built-in services.

I think if she was strictly honest with herself she would admit this fact that she does not want to be in the kitchen all the time. She likes to go out and do some social service work or go out and do some other things. If she were kept in the kitchen like her great grandmother was she wouldn't get the same amount of time, so I think it will continue to spread.

COMMISSIONER COUVRETTE: I take it in



your opinion the services should be intensified rather than reduced according to presentday plans.

MR. RANDS: That would depend if the public demanded them or continued to -- should we say rather than demand that they continue to use them. I would imagine that if a product were not selling, if the consumer would not buy it, the manufacturer would discontinue to make it, so I think it is in the hands of the consumer.

COMMISSIONER COUVRETTE: Then in your opinion the consumer really demands all these services?

MR. RANDS: That is if her buying of the product shows it is an increasingly bigger part of the market she is demanding it.

COMMISSIONER COUVRETTE: In other words, your opinion is that there is not too much waste along the line, or as little waste as possible?

MR. RANDS: Well, that is something -- I am not in the processing business and I have not studied the processing business as to what waste there might be in there. I am not in a position to provide you with those answers.

COMMISSIONER COUVRETTE: Well, what I understand is the waste is, I suppose, too elaborate packaging or advertising or merchandising or promotional schemes.



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MR. RANDS: That could be true. It could be that in some areas there could be too much; it could be true.

COMMISSIONER COUVRETTE: Would you say the proportion would be very high?

MR. RANDS: Well, again, you are talking about a widespread industry, and it may be too much on one and not enough on another. To make a blanket answer to you, I would be off base.

COMMISSIONER COUVRETTE: Well, I was asking you as a man in charge of an association which unites at the same spot all the --

MR. RANDS: We are a service organization. We are doing the service work for the manufacturer to get his goods as cheaply as we can to the consumer, and if the product gets too high, our people don't buy it, and we don't handle it. We are in that position, as you are the retailer.

COMMISSIONER COUVRETTE: Well, I will try it this way, and this will be the last way I will try it.

MR. RANDS: I am not trying to fence with you, sir. Perhaps I am not getting your point of view.

COMMISSIONER COUVRETTE: Would you feel that being on the retail end of it, that, personally, there are a lot of things you would like to have done that won't mean anything as far as sales volume and results are concerned?

MR. RANDS: I am not sure of that question.



THE CHAIRMAN: Let me try it this way: In explanation of the increase in the spread there are two types of factor which we have had emphasized. One is that the unit costs have gone up -- you are paying more for an hour of labour; this is what is represented to us -- and you are paying more for a can.

MR. RANDS: That is right.

THE CHAIRMAN: Unit costs have gone up, but there is another argument, that there is an unnecessary proliferation of services going along with the commodities today, and that some of this element of the cost could be cut back without any real hurt to the consumer. In your view is there an excess element of cost in the servicing?

COMMISSIONER COUVRETTE: That is what I meant.

MR. RANDS: I think, Dr. Stewart, I would have to go back to what I said before, that, not having any knowledge of what is charged in there, I couldn't very well express an opinion, only on the grounds that I can say that if an article is not in an attractive package, and is put beside one that is attractive, that Mrs. Housewife will pick up the attractive one. It seems to me the eyes decide what the consumer wants maybe more than her stomach. It may be the cost of promoting that article, because it is fancy, is more than the one that is dull, but I venture to say the dull one will be a "dodo" on the shelves of the retailer.



Does that more or less answer the question?

THE CHAIRMAN: You are not prepared to say there are any such costs?

MR. RANDS: No, I am not.

COMMISSIONER WALTON: On page 11, at your second last paragraph you say, "The simple fact is that lotteries, give-aways, prize draws and similar things ..." -- and I suggest coupons that are redeemed in the store -- "... in most instances, are substitutes for a reduction in price": It would be your feeling that this type of thing, in effect, does add to the cost of the retailer? Just the redeeming of coupons alone takes time.

MR. RANDS: Oh, yes.

COMMISSIONER WALTON: And that would be a cost?

MR. RANDS: Yes.

COMMISSIONER WALTON: And if that were eliminated it would be a benefit?

MR. RANDS: I am not sure that is what we were discussing before, but in this case I would have to agree wholeheartedly that is a cost to the consumer.

COMMISSIONER WALTON: It is not really a service, but it is one of the persuaders?

MR. RANDS: Yes, it is definitely a persuader.

COMMISSIONER DRUMMOND: You mention at the bottom of page 2 the fact that hourly earnings of workers -- and this is a report from the Agricultural



Marketing Service Bulletin in the United States -- rose more than three times. During the same period unit labour costs rose only 2.3 times, and you add, "This shows a pronounced rise in worker productivity." The figures stated there made me wonder whether the word "pronounced" rise is the correct one?

MR. RANDS: This is a quotation from the department; in other words, inferring that in Canada I would think the same thing was in vogue.

COMMISSIONER DRUMMOND: Yes, the actual earnings went up three times, and the unit labour costs went up 2.3 times, and that would suggest to me that the worker productivity did not rise by more than .7 times?

MR. RANDS: Quite right.

COMMISSIONER DRUMMOND: Is that right?

MR. RANDS: That is right.

COMMISSIONER DRUMMOND: And you consider that is a pronounced rise?

MR. RANDS: I don't, particularly. I took this statistical report of the U.S.A. government -- and by the way, it is the only American figures we have quoted. We have tried as much as we could to get Canadian figures. In this case we could not, and we wanted to actually give a labour view on what had happened, and we wanted something to show labour had done something here.

COMMISSIONER DRUMMOND: Near the bottom of the third page, you refer to the fact that food



stores in general are rapidly curtailing their credit and delivery services, and that they are undertaking the self-service idea: Would you say this means that the so-called special advantages of the independent retail store are, to that extent, being lost or disappearing?

MR. RANDS: No, I would not say so. I still think in the smaller store you get some attention that you don't get in the larger store. But, competitively, we are meeting the challenge. That is what it means.

COMMISSIONER DRUMMOND: But to the degree it is commonly stated that one of the real competitive advantages of the independent store vis-a-vis the supermarket is that the independent still offers delivery service and, in many cases, credit service.

MR. RANDS: I would think so.

MR. POOLE: Our store was established in 1895, and we have gradually come across until we are operating just like a chain store as much as possible, and I don't think we have lost anything by dropping telephone service, charge accounts and delivery service. We have none of those services, and our business has increased.

COMMISSIONER DRUMMOND: In other words, you gained rather than lost?

MR. POOLE: We have definitely gained, because that service is not asked for by many people, with so many cars and night shopping; the customer



does not want that service.

COMMISSIONER DRUMMOND: So, the offering of these services is no longer a worth while competitive weapon?

MR. POOLE: In my opinion.

COMMISSIONER DRUMMOND: An interesting statement at the middle of page 4 where you say, "Thus, in times of low national income spread narrows. During buoyant times direct farm to consumer sales decline in importance." Just taking that statement by itself, would suggest you feel that in hard times, times of low national income, many of the things you have discussed elsewhere in the brief -- many of the costs simply would not be incurred, and the consumer would not pay for many of these things, and, consequently, that automatically would reduce the spread?

MR. RANDS: Yes.

COMMISSIONER DRUMMOND: In the opposite type of period, the reverse of this would be so?

MR. RANDS: That is right; that is the way we feel.

COMMISSIONER DRUMMOND: Which would suggest that the overall factor, in your opinion, which causes this widening of the spread is simply real good times?

MR. RANDS: Yes.

COMMISSIONER DRUMMOND: You speak of the cost of living index, and I want to make sure I understand your comments here: Would it be correct





to say that you feel that the price index as presently calculated by the D.B.S. simply does not include enough commodities to give you a truly representative sample?

MR. RANDS: Yes, because there are 6,000 items at least the consumer can buy, and there is only a very small percentage -- may be 7 per cent or 8 per cent; I am not sure what number they take now. It may be more than that. I noticed yesterday in the brief of the Packinghouse Workers that they said 60, but I could not say if that is right or not. However, obviously it is a very small portion of what Mrs. Consumer can buy, which is put in front of her, and she is there to pick them. If she was only buying those items, that would be different, but, as you know, when you go to a store, you buy the things that are not on the cost of living index and, consequently, I feel it can only show the trend in the articles that are used and not the other 5,000.

COMMISSIONER DRUMMOND: My only comment to this point, is that the Bureau in making its selection of commodities does make a special attempt to select those commodities and that number of commodities which will provide, in their opinion, a representative picture.

MR. RANDS: Yes.

COMMISSIONER DRUMMOND: You feel that that has not been achieved?

MR. RANDS: That is right -- pardon me: we are not criticizing the work done by the D.B.S.



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in that particular thing, because we think they have done a pretty good job, but we feel it does not meet the position.

COMMISSIONER DRUMMOND: You say at the bottom of the page that by intelligent shopping the consumer can buy her food requirements today at prices which are not higher than a year ago, but isn't it true that they are higher than they were 10 years ago?



MR. RANDS: I was not in a position to get figures, I was hopeful that I could, but we simply could not get the figures to produce, and we wished to have those. I would think that no, she could not buy them. That would be a personal observation, that I do not think she can.

COMMISSIONER DRUMMOND: Now, this intelligent shopping, that might cover quite a bit of territory, she can get what you call her food requirements, but this term "food requirements" might have been completely coincident with this whole matter that you have emphasized elsewhere, the possibility of getting processed products, pre-cooked packages and so forth, can she get all things, or would you consider those would be part of the overall requirements?

MR. RANDS: You see on Exhibit A we say such items as chocolate cake mix, corn flakes, instant coffee, cake and pastry flour, we say she had so much cheese, skimmed milk, things like that. Detergent powders and canned soups and beans and frozen fish and strawberries and so forth. It was an independent survey, and we did not ask them what to take or how to do it, we said that we wanted to know what the position is, and you just take approximately 100 lines, and you pick them up as a housewife, and then just put them out this way. If the Commission would like, we can provide you with a copy of a pricing survey which shows all the items which are carried in chain stores in



the Toronto and metropolitan area. I think we can provide you with that if you wish to further delve into the statement we have made. It is an independent survey.

COMMISSIONER DRUMMOND: I might be inclined to agree that the consumer by judicious shopping could actually get her food requirements, meaning thereby her requirements as a nutritionist suggests the requirements are. It may not be what a typical or average consumer today regards as their usual requirements, her requirements in the way of wide choice.

MR. RANDS: I think I have to agree with you.

COMMISSIONER DRUMMOND: Well, I am afraid there is not enough time to ask very much more, but you mention on page 6 different things, and particularly you mention the fact that the distributing industry built prosperity and new markets with these techniques, that is speaking of quality control and research. Down near the bottom you say there are perhaps limits to how far industry research can make inroads on the traditional farm markets. If you are going to make inroads on these markets, what does that mean?

MR. RANDS: In other words, start selling items in bulk, the old manner. We now process them and sell them in highly processed forms to the consumer.

COMMISSIONER DRUMMOND: You are substituting food in new forms for food in old forms?



MR. RANDS: That is right.

COMMISSIONER DRUMMOND: You do not mean to suggest you are in any way reducing the total?

MR. RANDS: Oh, no.

COMMISSIONER DRUMMOND: At the bottom of page 9 you are speaking of the various types of taxes, you include corporation and personal income taxes there. Would it not be fair to say that during the last several years there has been very little, if any, increases in corporation and personal income tax rates?

MR. RANDS: Yes, I believe you are right.

COMMISSIONER DRUMMOND: To that extent, you might perhaps eliminate those from this list.

MR. RANDS: As the cost of a wide spread -- in other words, in 1951 we were doing the same thing -- yes, perhaps.

COMMISSIONER DRUMMOND: I should like to have had some further proof, as it were, of the statement you are making near the middle of page 10, the statement that you believe this to be far from the facts, in other words, that price competition is rather a rare article.

MR. RANDS: I believe we can leave with you some newspaper clippings from the province of Quebec and some from Ontario which I believe will prove the fact. I will leave that with Mr. Dawson if you would like them.

COMMISSIONER DRUMMOND: Very well. The other question I would like to leave with you arises



out of your statement at the bottom of page 10 where you say competition requires competitors, and, of course, you are thinking of competitors as a large number of independent retailers?

MR. RANDS: That is right, sir.

COMMISSIONER DRUMMOND: And the implication is that as long as they are there they will provide competition, worth while competition which would not otherwise exist?

MR. RANDS: Right.

COMMISSIONER DRUMMOND: Now, in view of the very large part played by the big non-independent retailers, the question I am simply going to leave with you is, do you think that the independent retailer, even though they are numerous, can provide really significant price competition?

MR. RANDS: Yes, I do, oh yes, I think you could ask my two associates here, and they will agree with me. I would irrevocably say so.

COMMISSIONER DRUMMOND: I hope you are right.

MR. RANDS: I think they are doing so.

THE CHAIRMAN: It seems to me, Mr. Rands, there is a typographical error on page 10, which you might change. Am I not correct in supposing that the figure which reads 8 million should be 8 billion?

MR. RANDS: Yes, it should be 8 billion.

THE CHAIRMAN: Thank you very much, we appreciate your preparation of this brief, and



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your coming here today.

MR. RANDS: Thank you, sir.



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Submission of

THE
PREPARED BREAKFAST FOOD SECTION OF
THE QUAKER OATS COMPANY OF CANADA LIMITED

Appearances:

Mr. J. G. Wharry President

Mr. Bell

THE CHAIRMAN: We are to hear now from
The Quaker Oats Company of Canada Limited. We have
present with us Mr. J. G. Wharry and I think with you
is Mr. Bell.

MR. WHARRY: Yes, Mr. Chairman.

THE CHAIRMAN: We would feel more comfortable
if you sat down.

MR. WHARRY: Thank you very much. Did
you want me to read our brief?

THE CHAIRMAN: Yes, please.

---EXHIBIT NO. 84: Submission of The Prepared
Breakfast Food Section of
The Quaker Oats Company of
Canada, Limited.

MR. WHARRY: Mr. Chairman and Commissioners:
The invitation to appear before you is appreciated and
we hope we are successful in giving some pertinent in-
formation.

Our Company: The Quaker Oats Company of
Canada Limited is a wholly owned subsidiary of The
Quaker Oats Company (the parent company) whose head-
quarters are in Chicago, Illinois. We operated in



in Canada as a branch of the parent company from 1902 until 1943 when we were incorporated as The Quaker Oats Company of Canada Limited. The parent company operates plants in England, Europe, South America Countries, Mexico, United States and Canada. Research for all Quaker plants is carried on at our large Research Laboratories in Barrington, Illinois.

The parent company's business is quite diversified, but our business in Canada is confined to prepared breakfast cereals, certain uncooked cereals, manufactured feeds, pet foods, flour and poultry processing. We operate five plants in Canada -- Peterborough, Ontario; Saskatoon, Saskatchewan; Trenton, Ontario; Brampton, Ontario, and St. Jerome, Quebec.

Since we were asked to submit our brief on prepared breakfast foods, I will confine our remarks to the following list of prepared breakfast foods which we manufacture.

Peter Pan Puffed Wheat	13 qt. size
Peter Pan Puffed Wheat	8 qt. size
Peter Pan Puffed Wheat with tumbler	8 qt. size
Quaker Puffed Wheat	4 oz size
Quaker Puffed Wheat	6 oz. size
Quaker Puffed Rice	6-1/2 oz. size
Quaker Puffed Rice	4-5/8 oz. size
Quaker Corn Flakes	8 oz size
Quaker Corn Flakes	12 oz. size
Quaker Muffets Shredded Wheat Biscuit	9 oz. size
Quaker Pack-O-Ten	assorted pack individuals

Quaker's Views of Canadian Food Business:

Grocery Products move from the manufacturers in carload



or truckload quantities to wholesale grocers and regional chain store headquarters. Until recent years, all grocery products were moved by the railroads, but now trucks are competitive and in many cases give as low or lower rates than the rails and guarantee overnight service.

The wholesale or regional chain distributes grocery products to the individual stores or units located in their district. In recent years, some wholesalers operate on a cash and carry basis, where the retailer picks up his goods at the central warehouse and performs his own cartage.

The Food Manufacturer: The food business in Canada is an ever-changing business and to merit the confidence of the consumer in its products, the manufacturer must change with the times and anticipate changes and trends.

Due to high costs of packaging machinery, the intricacies of manufacture and Canada's scattered population, it is impossible to strategically locate plants for all separate parts of Canada, so manufacturing of such products as prepared cereals is centralized by Quaker in one plant, which is located at Peterborough, Ontario.

Varying climatic conditions from areas of high humidity in the coastal points to the cold areas in the north and the mild areas in southwestern Ontario adds to the complexity of packaging, because we always must be conscious of making our products available fresh and acceptable to the consumer.



Our research laboratory has spent large sums of money in research to make the finest products possible and then make sure they are packaged to withstand long freight hauls, varying climatic conditions and periods of time.

Methods of Distribution: (A) The Wholesaler: The wholesale grocer has been the backbone of food distribution throughout Canada. They accept shipment from the food manufacturer in carload or assorted carload shipments to keep freight costs at a minimum and then they distribute in smaller quantities to the retailers located in their particular area. Competition amongst wholesalers has necessitated introduction of modern methods of warehousing and merchandising. Many wholesalers are now sponsoring voluntary chain retail outlets and instructing these retailers in all phases of modern merchandising.

(B) The Retailer: The retailer, either independent or part of a voluntary chain, is the last step in distribution to a very discriminating public. One has only to travel in other countries to appreciate the high class of retailers serving Canadians.

(C) Corporate Chains: Corporate chains are fast blanketing Canada and their modern stores, as well as merchandising "know-how" has given the consumer a further opportunity to compare values and quality of food products.

Competition amongst retail channels of distribution has brought about a whole new concept in shopping. In "self-service stores" a shopper has an



opportunity to make choices between many brands and varieties of foods. The product, through packaging, must tell its story clearly and quickly to attract shoppers' attention. This has led to more descriptive and better branding, better packaging to preserve the quality of the product and convenient package sizes for various sized families.

Advertising, Merchandising and Promotion:

Any package food business didn't just happen. It grew in volume by the accumulative efforts of well planned steps in the introduction and sales promotion of quality products. We must always strive for a larger volume with a resultant lowering unit cost, otherwise we cannot honestly claim a share of the food dollar. The consumer must feel friendly toward our products, otherwise competitive food products fill the food basket, volume drops, costs increase and we fail to justify shelf position in the retail outlets. The mortality rate of new products is high because mistakes are made along the line in not properly telling the product story to the consumer.

We advertise through daily newspapers and sometimes use magazines. We also use radio and TV. Advertising costs per inch or per minute have increased in recent years and we must make sure our advertising dollar is carefully spent to do the most good, commensurate with the potential market and anticipated volume. Market research is employed to give us these answers and we rely strongly on this scientific research to help chart our course.



Our prepared cereals not only compete with all other prepared cereals, but also with so-called hot or uncooked cereals such as Quaker Oats. Prepared breakfast cereals also compete with a multitude of other products such as Aunt Jemima Pancakes, toast, fruit juices, fresh fruit, fish, bacon, eggs, jams, etc. Unfortunately, for the manufacturer of prepared breakfast foods, many thousands of commuters still erroneously think of toast and coffee as an adequate breakfast.

Through our cereal advertising, we create a very sizable demand for milk, cream and sugar, as well as fresh fruits in season, thus giving many other farm products a real boost in volume. A good cereal with milk and cream and fresh fruit is a truly tempting and nourishing dish.

In the late twenties and early thirties, we tried various means of popularizing our prepared cereals. In addition to using traditional newspaper and magazine advertising, we sampled the consumer generously and offered free deals to the trade such as one case free with five and one case free with ten.

This only had the effect of pyramiding mill shipments in the warm months of the year, which then resulted in factory shut-downs and lay-off of labour force. Our prepared breakfast foods, unlike some other products -- I emphasize this, then repeat it -- do not improve with age and the consumer demand soon reflected our errors.

We appealed to scientific consumer research



for the answer and it was recommended we use adult and children's premiums as well as package back cut-outs to create a continuing demand for our products throughout the year. We accepted the findings of consumer research and entered into this new era of sales promotion. It became almost immediately evident we were on the right track. Our shipments of prepared cereals increased and the quarterly mill shipments broke out as follows:

1st quarter	19.9%
2nd quarter	26.4%
3rd quarter	28.7%
4th quarter	25. %

General Remarks: Our Company in 1937 introduced certain fringe benefits for our employees, including a pension plan and a guaranteed work plan, both of which were revolutionary in our industry at that time. It might also be noted this was done many years before our plant was unionized.

Transportation costs, according to information supplied by the Canadian Industrial League, have advanced over 80 per cent on prepared cereals.

Packaging costs from 1949 to 1957 have advanced approximately 52 per cent.

Wages and fringe benefits have increased approximately 56 per cent.

Our prices on two typical prepared cereals -- Quaker Puffed Wheat and Quaker Muffets Shredded Wheat Biscuits -- have changed in price as below:



	<u>Quaker Puffed Wheat - 4 oz.</u>	<u>Quaker Muffets</u>
1949	100	100
1950	115	105
1951	124	121
1952	124	121
1953	124	128
1954	135	128
1955	135	128
1956	134	136
1957	134	143

For many years we have supported a Wheat Research Project through the Ontario Agricultural College at Guelph, Ontario, to procure better strains of Ontario Winter Wheat for processing. We have encouraged the growing of this better grade of Ontario Winter Wheat in our local mill district by purchasing carloads of registered seed, which were resold to the farmers in the Peterborough District at our cost price. When the wheat was harvested, we paid local farmers a premium for wheat, white in colour and of good test weight, to encourage the continued programme of growing a better quality wheat for our products.

Conclusion: The prepared cereal industry is extremely competitive and, since sales of all prepared cereals account for not more than one per cent of the total Canadian food sales, we do not feel the prepared cereals have had any great effect on the economy of the country.

We operate in a democracy where there is freedom to enter into any type of business, freedom



to compete in manufacturing, merchandising, promoting, packaging and selling, which we feel should be defended rather than attacked.

In the last generation, there has been a tremendous upgrading in consumer demands and this has been accomplished at a very modest cost to the consumer.

The great majority of these changes have taken place at the processing and distributing level and it is for this reason that these segments of the industry have accounted for an increasing share of the consumer's food dollar. The most significant advances have been in such things as transportation, refrigeration storage, high quality standards, more convenient packaging, new or improved consumer products and greater variety. I feel our industry has kept pace with the times and has given the consumer a wide variety of products from which to choose the daily sustenance at a very modest increase in price over the 1949 level.

THE CHAIRMAN: Thank you very much, Mr. Wharry.

COMMISSIONER WALTON: Perhaps I might just ask one question which occurs to me. On page 2 you listed your type of products with the various sizes. We have had two or three briefs presented to us where they have said it is very difficult for the customer in trying to evaluate her expenditures to find out what was the best value by reason of these odd weights. I notice you have a 4-5/8 ounce size. Can you tell me



is that because of a standard package?

MR. WHARRY: I would be very glad to answer that, Mrs. Walton. Food packaging machinery costs a lot of money. It is very expensive and if we have a standard line or packaging certain contents -- let us refer to corn flakes. If we have a package line with all the machines that will take that package then before we put in other machinery to get just the exact ounce we will take the product, another product, and put it into a package, that same size package, and use that same machinery to make the same size package. Unfortunately, with certain products the weight will differ. For instance, puffed rice will be heavier than puffed wheat, and corn flakes will vary again, but there are certain products we would like to bring out today. For instance, we would like to come out with another size of corn flakes but we can't do it because the package machinery to bring out that one line of corn flakes would cost us in the neighbourhood of \$100,000.

We look at the potential volume we could get against the big fellow; we can't get enough volume to warrant that so we have to stay out of the market, and the only way we can get into the market with something is to use the type of machinery that we have. That is why we have this 4-5/8 ounces. We don't like to put it out but we might, if we squeeze a little harder, get 11/16 ounces which would even be worse. We don't want to confuse the consumer with differences in the sizes of the food. She can see it is in the size of



the package.

COMMISSIONER WALTON: Where you are using the same packaging, it is an economy to you because you are able to use the equipment and just put a different name on it and a different product inside?

MR. WHARRY: That is correct.

COMMISSIONER MARTIN: Well, we have heard a lot in these past days about advertising and you say on page 6, at the bottom, that you make sure that your advertising dollar is carefully spent to do the most good. Is it good for the producer, the consumer or the company, or for all three?

MR. WHARRY: All three.

COMMISSIONER KIDD: On page 8, some of your typical products -- I have one or two questions there. You have given us an index of price changes in these two products from 1949 to 1957. I may say this pattern has been true of briefs of other companies' products who have been before us and the pattern is that the price increased more than the general food index. In 1957 the general food index was around 120 to 122, whereas Quaker puffed wheat was 134 and Quaker muffets was 143. Why did these prices increase faster than the general food index?

MR. WHARRY: Mr. Kidd, I am sorry. I can't answer you.

COMMISSIONER KIDD: Can you tell us why the major increase in Quaker puffed wheat came in 1954 which was, as we all know, a poor business year. It went from 124 to 135.



MR. WHARRY: I will say this, that I could not without going back and looking at the figures. I can get that information for you but I am not sure. Back in 1950, let me put it, from 1950 to 1953 it went up from 115 to 124. It went up nine. Now, it might have been that we got behind the times.

COMMISSIONER KIDD: Well, the next year it went up another nine?

MR. WHARRY: That is right. It may have been that is when we finally pulled our socks up. I shouldn't put it that way. We got behind with our margin that we thought we should have. Maybe we got where we were not making any profit because we are reluctant to go up and down every month in the case of cereals. Sometimes we hold it down as long as we can and when certain costs start to pyramid that is when we have to start to take action.



COMMISSIONER KIDD: If you can't recall on puffed wheat, how do you account for the very rapid increase on muffets in the past two years -- 1956 and 1957?

MR. WHARRY: I will answer the same as before: Muffets maybe got to the place where we were reluctant to change the price, and we got down to very little, if any, margin on it.

COMMISSIONER KIDD: There are a number of interesting points here, but one thing is that any major increases each time came in business recession years?

MR. WHARRY: Let me put it this way: A business recession year is not necessarily a business recession in the food business.

COMMISSIONER KIDD: Well, we have heard evidence to that effect too.

MR. WHARRY: We haven't experienced a recession yet.

COMMISSIONER KIDD: You haven't experienced a recession?

MR. WHARRY: No, sir.

COMMISSIONER KIDD: Demand has remained good?

MR. WHARRY: Yes, sir, except for export. I am referring to the domestic market.

COMMISSIONER KIDD: Was there any major rise in the cost of the raw materials in this period under review?

MR. WHARRY: I cannot answer that. I will



be glad to get that information for you, but I cannot answer it now.

THE CHAIRMAN: In a more general way, it is interesting that in the last four years the puffed wheat prices have remained about the same, and your muffets have risen in the last three years: Is there any simple explanation of this -- why muffins should go up, and puffed wheat should remain the same?

MR. WHARRY: Puffed wheat in a package -- I almost hesitate to say this with the press here, but nevertheless I am going to: Puffed wheat in a package has been subjected to extreme competition from other similar foods dressed up better. I am referring to the competitor who takes puffed wheat -- a competitor -- and puts it in a better package than we have, with aluminum foil, and he adds honey to it or maple syrup -- not maple syrup, but he adds honey, or a lot of other things. That has really cut in on our business, on the regular type of puffed wheat. True, the competing product will sell at a higher price, but in our pricing process I suppose we recognized that, and we have taken a licking in trying to help our price to see if we could not hold some of that market, because we were not in a position to go out with this different sized package, with honey, or something else. As a matter of fact, five years ago we tried it, to our bitter sorrow. We came out with puffed wheat in a simple package, and we decided to put it into the cheapest package we could at that time, and we put it in a cellophane



bag, and we came out with it. Now, it did get hard -- just a little bit -- but all you had to do was crunch it up, but the consumers said, "We don't want it". The retailer found that the cellophane -- whether it was the cellophane -- and I should not speak about a product, and I hope this is not quoted -- the cellophane broke on the package, and the retailer complained, and, in the final analysis, we got back more sugar coated wheat than we had shipped out. There is a typical example of coming out with a product where we said, "We will package it cheaply, and not get in expensive packaging machinery. We will put it out cheaply, and in such a form that they can see it." But, the brand that took over that market, was a brand that you could not see; it had an aluminum liner, and this that and the other thing, and we passed out of the picture because we got puffed wheat back -- that is what happened to us. We have felt the competition from this other with our plain puffed wheat and plain puffed rice.

COMMISSIONER KIDD: Why do you think in the breakfast food industry there has been this general rise, which has been much greater than the rise in the general food index?

MR. WHARRY: I suppose --I have covered some of them here: Our packaging costs have gone up, the increase in the cost of buying a page of advertising, and the increase in the cost of buying a TV show.



COMMISSIONER KIDD: This is right across the industry?

MR. WHARRY: Yes, that is right.

COMMISSIONER KIDD: So, promotional campaigns are one point in the cost?

MR. WHARRY: That is right.

COMMISSIONER KIDD: Supposing one company was able to follow the line you have just mentioned there, and sell more of its product, and as the demand rose, its price rose: Would that provide an umbrella for all other breakfast food companies to bring their prices up too?

MR..WHARRY: I don't think we are concerned with any umbrella. We have got our own peculiar types of cereals. We have got a round biscuit and somebody else has a long biscuit, and somebody puts it out in the form of the letters of the alphabet, and somebody else some other way. We all have a different approach. In the puffed wheat business you can buy it in bags, or bushel baskets, I think, in Western Canada. You can buy it any way you want to buy it, and as far as an umbrella is concerned, if we don't put out something the consumer can take away, then we are out of the picture. We have our own umbrella, and sometimes it leaks.

COMMISSIONER KIDD: What is the proportion of the sales dollar used up in labour costs and the proportion used up in promotional advertising campaigns?

MR. WHARRY: I think we have covered that



in this question and answer. I would say, subject to correction, that it is covered. We submitted two briefs: One that has all this pertinent information in it, and I would say that our labour costs are greater than our promotional costs.

COMMISSIONER KIDD: You could not give us a figure off hand?

MR. WHARRY: No, I am sorry, I cannot.

COMMISSIONER KIDD: Would promotional costs be 12 per cent, as someone else indicated in their submission?

MR. WHARRY: No, ours would not be 12 per cent.

COMMISSIONER KIDD: Your labour costs more than 12 per cent?

MR. WHARRY: Yes, in prepared cereals.

COMMISSIONER KIDD: How much more?

MR. WHARRY: Well, as I said previously -- no, I am sorry, I can't answer that. I would not want to say that directly. I have a feeling that it is, but I would not want to answer that directly. What do you say about that, Mr. Bell?

MR. BELL: I would rather look it up.

COMMISSIONER KIDD: We have heard quite a few comments on the effect of the increasing labour costs on prices: Do you think the increasing labour costs have been transferred into effective demand for products as well; in other words, what do you think of the increasing wages that are being paid as a factor in the market for your product?



MR. WHARRY: I will just take the matter of wages: We believe the people in our industry should be paid well, and we do pay them well. As I said in my brief -- and I want to emphasize that -- we were one of the first companies in the Dominion of Canada to put in pensions and a guaranteed work week.

COMMISSIONER KIDD: Do I detect a note of sorrow that you didn't put them in before the unions came in?

MR. WHARRY: No, it was a matter of pride, because I think there are certain companies today where things like that have happened after the unions came in. I am proud of the fact we did it before they came in.

COMMISSIONER KIDD: What about this demand I was talking about -- the increasing level of wages as a factor on the increasing demand for your products?

MR. WHARRY: I don't quite follow.

COMMISSIONER KIDD: Let us put it this way: There have been quite a few complaints from various employers groups before us as to the rising wage cost factor, but I am wondering if that same rising factor has not, in fact, been the great reason why the demand for food products has increased to the extent it has in the past 10 or 15 years?

MR. WHARRY: I don't think there is any doubt about it. I don't think there is any doubt that



the two go together. You will notice in our brief we have not complained about the rising costs of labour. Maybe we are singular in that respect, but we have not. The same as everybody in this room, we want to get good wages, and we want to get good salaries, and to eat a little higher on the hog.

COMMISSIONER KIDD: But you are not going to cry about it?

MR. WHARRY: No, not at all. I think it is wonderful. I am not crying a bit about it.

COMMISSIONER KIDD: I didn't think you would.

MR. WHARRY: I think I am a good example of somebody who enjoys food. I might also add this, that when I left home last night, my wife happened to be away, and I was getting some food for my boy, and he said, "For goodness sake, don't you try. Get me one of those TV Swanson's dinners out of the 'frig." Years ago he would never have heard of that, but he said, "I can't even make a sandwich." Now, my wife is connected with the Children's Aid Society and several other things, and she has a daughter who has just had a child out in Alberta, and she is not at home very much, and if the young lad and I didn't have the advantage of some of these prepared foods, I wouldn't look this way. What do you say, Mrs. Walton?

COMMISSIONER WALTON: I think you ought to leave some of them in the refrigerator.



COMMISSIONER DRUMMOND: This relates to the question Mr. Kidd was asking a moment ago, but I am not asking for any specific figures at all, but simply for a general answer. Would it be true that with your particular products, packaging costs and promotional costs would be larger factors in your total costs, than would be true of most food products?

MR. WHARRY: Well "most food products"? When you combine the two together -- when you say packaging and promotion --

COMMISSIONER DRUMMOND: You see, the reason I put "most" in there, is that Mr. Kidd asked you to explain, if you could, why the increase in the price of your products was greater than that of all foods in general, and I am trying to find an explanation, and I am wondering if the combined costs of packaging and promotion in your case is higher than that of the average for foods?

MR. WHARRY: I would say in relation to the average of all food products, I would say -- taken as an average. When you talk about packaging potatoes, for example, that would be one thing, or packaging peas; that is a pretty broad question, and I will answer it as broadly, and say yes, without having a full breakdown before me.

COMMISSIONER DRUMMOND: The chairman has already dealt with what I think is a very important question, and you have explained why the price of muffets has risen faster and more than that of puffed



wheat, and I am especially interested, because I definitely prefer the muffets.

MR. WHARRY: Thank you very much.

COMMISSIONER DRUMMOND: My only objection is that I cannot get them every place I eat. On page 6 there is one general question: You state in the second paragraph that prepared cereals have to compete with a long list of things for breakfast?

MR. WHARRY: Yes.

COMMISSIONER DRUMMOND: In the next paragraph you say that you help to expand the demand for farm products, because sugar and cream and so forth are used on the cereals. To the extent that you win out in this competition -- that is, that your products win out in this competition with fish and bacon and eggs and so forth, do you not thereby reduce the demand for all those farm products?



MR. WHARRY: That is a very good question. I think this, with the traditional ready-to-eat cereal, the people who eat ready-to-eat cereal in the morning, I think are generally the people who move fairly fast, and they have not the time.

COMMISSIONER DRUMMOND: That is me.

MR. WHARRY: To cook bacon and eggs or have somebody cook bacon and eggs, so they will just slip on a few sliced peaches or some raspberries or something like that. That is what I think. A lot of boys today will not take time in the mornings going to school to eat something, and the others, I think it is a question of timing and a question of the days we live in. On the other hand, we revert back and forth. I know in my own case I revert for variety.

COMMISSIONER DRUMMOND: Just one further point: In regard to the official records, the per capita consumption of cereals as a group has been definitely going down in recent years, particularly since the war. In view of that, since you are producing and selling cereal products, I am wondering if this does not mean that in order to maintain, to say nothing about extending your sales, you have not got to incur continually higher promotional and advertising costs?

MR. WHARRY: Not necessarily. What we have done is, if we look at a business that is going to take increasing promotional costs to stay in the business to the place where we think it would be uneconomic



for the consumer and unprofitable for ourselves, we get out of it. The best example I can give you on that is cake mixes. We were one of the first people in cake mix business, we bowed out and we found out there were other channels on which we could better spend our time than that. Consequently we got into the cat food business. You may be interested to know that today we are selling many more cans of cat food to the discriminating Canadian public than we are selling packages of puffed wheat.

COMMISSIONER DRUMMOND: Are you helping the farmer?

MR. WHARRY: We are helping the fisherman in the Maritimes, we buy several thousands of tons of fish from the Maritimes, and that helps feed the cats all over the country, and the cats are better fed today than they ever have been. We are helping the Maritime fishermen in that way.

THE CHAIRMAN: Thank you very much, we appreciate your preparation of the questionnaire for us, and coming forward to present this brief.

MR. WHARRY: Thank you very much for hearing us, it has been a pleasure to appear before you and we want to be as helpful as we can. I can assure you that we are not getting rich at the expense of the consumer, we are interested in the farmer. I am a farmer's son myself, and I am not too far removed from the sod, and I am not too sure I would not be better off back there than where I am.



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THE CHAIRMAN: We will adjourn until
2 o'clock.

--- The hearing adjourned at 12.50 p.m. to resume
at 2 p.m.



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11/19

Submission of
GENERAL MILLS

Appearances:

Mr. G. W. Ryan	Vice-President and General Manager
Mr. V. H. Nelson	Vice-President and Comptroller

THE CHAIRMAN: We will now hear the brief of General Mills, which will be presented by Mr. G. W. Ryan, Vice-President and General Manager. He is supported by Mr. V. H. Nelson, Vice-President and Comptroller.

---EXHIBIT NO. 85: Submission of General Mills.

MR. RYAN: General Mills is engaged in the manufacture and distribution of Betty Crocker Cake Mixes, Baking Mixes, and Cereals. It is our desire that our presentation may provide a significant contribution to the study the Royal Commission has undertaken.

In recognition of the period of years the study is covering, we wish to point out that our report will not cover the ten-year span, as our activities in Canada did not commence until June, 1954. From this date on, we have gradually expanded our operations on a province-by-province basis, with our entry into Newfoundland currently under way.

The expansion of our various product lines was undertaken on a planned basis during this period, and we are currently marketing approximately fifty



products in the field of cake mixes, baking mixes and cereals. In the marketing of these products, we, of course, entered into an atmosphere of established activity. This implies that principles, policies, and procedures in marketing were well entrenched prior to our entry into the Canadian market.

We believe our conduct as a corporate citizen in our industry has made a significant contribution in the area of sound business practices, based upon providing quality, service, convenience, and good value to the consumers. In view of the highly-competitive era since 1954, we could not have been successful without a vote of confidence from our customers and the consumers.

We believe the Royal Commission would be interested in the problems and opportunities encountered by a manufacturer in entering the highly competitive food industry in Canada. To undertake the responsibility of building a new business on a sound basis is not an easy task. However, the assistance we received from government departments at the federal, provincial and municipal levels was extremely beneficial to us. The establishment of good contacts with these departments has enabled us to utilize their services and benefit from their direction and recommendations almost continuously since our entry into the Canadian market.

The importance of training and developing Canadian personnel to assume positions of responsibility in our organization was a major part of our



programme. This has been accomplished by using limited imports from the parent company and by providing a planned training programme for our Canadian personnel in our plants and offices in the United States, as well as by continuous on-the-job training in our plant in Weston to enable them to assume greater responsibilities in General Mills, Canada.

During this transition period, the burden is heavy on key personnel, but the advantages of providing good career opportunities, at all levels of operations and management, is reflected in the calibre of our people today. Several of the original American executives have been recalled to the States during the past year. This programme of exchange and development will continue in the months ahead.

At the time General Mills entered Canada, the U. S. company was employing the services of at least five major advertising agencies in the United States. Some of these agencies maintained branches in Canada and were anxious to have our account. We believed our advertising should be interpreted by a completely Canadian agency to give General Mills the Canadian viewpoint and to provide advertising copy directed to Canadians. We have received excellent guidance and cooperation from the E. W. Reynolds Agency in Toronto and Montreal, which has enabled us to achieve this goal.

The important French Canadian market required a sound approach in translation and in marketing. We have been guided well in this area by Publicite



Services Limitee, under the direction of Nolin Trudeau and his associates.

These capable organizations, in working closely with the Advertising Department of General Mills, have developed a sound advertising platform which must be truthful, helpful, informative and designed to create broader consumption.

We believe this brief background information provides an insight into the importance of assuming corporate responsibilities in all phases of a company's activities. No company can be all things to all people, but there must be a clearly defined policy of operations that will reflect the integrity and the conduct of a company.

Whether it be people, quality and services, or advertising, promotion and products -- the consumer will rightfully decide the effectiveness of each of these in her own mind -- and her vote determines whether or not a company will remain in business.

We appreciate the opportunity to comment specifically regarding some of the major points the Commission is reviewing.

Under Section 11, Item 10, the question involves our viewpoint with reference to various forms of allowances. General Mills does not engage in cooperative advertising allowances as generally defined in the grocery trade. We do not have any arrangement whatsoever for shelf location discounts or end-of-year quantity discounts.

We do engage in specially identified



deals (such as one case free with fifteen -- one case free with twelve), and these are available to all accounts on an equal basis. This type of promotion is generally used in connection with introductory campaigns, although it is used periodically on established products. The so-called "free goods" promotion serves two purposes; first of all -- during an introductory period the free goods represent partial compensation to our customers for the time, trouble and effort that must be expended to warehouse, list on order forms and distribute new products. Additionally, the distributor's sales and merchandising organization is provided with an incentive to effectively introduce these products to their customers.

This type of promotion can also be used very effectively seasonally, and a good example of this can be illustrated in terms of cake mixes and baking mixes as we get into the summer season. There is a natural tendency on the part of homemakers to cut back on home baking during this period, and yet a well organized promotion can provide an excellent stimulant that will enable a manufacturer to maintain a more even flow in production and sales. The impact of these programmes and the resultant increased sales can be translated into production volume which, in turn, has a direct bearing upon the stability of our labour force.

We have a very great appreciation of the excellent work that is done by our production crews, and we feel a keen sense of responsibility to maintain



the highest production level possible in order to avoid layoffs or shutdowns. In many instances, these organized promotional programmes that are planned in advance to offset seasonal variations can mean the difference between full-time operations and periodic shutdowns.

In the cake mix and baking mix field we are, of course, in competition for the consumer's dollar with an extremely broad range of other dessert items. When special promotional programmes are well planned and well organized, they definitely have a direct bearing upon the consumption rate at a given time of the year.

Generally, this type of promotion will tie in with some special event during the year such as Easter, Thanksgiving or Christmas.

Based upon consumer survey reports, the per capita consumption of cakemix is approximately one package per family per month. In some markets this figure runs higher than in others, but the twelve packages per family per year is the average for all homes across Canada. The baking mix products, cake mixes and other items falling into this class have a very definite bearing upon the movement of primary goods used in the manufacture of these convenience foods, such as flour, sugar and shortening. The higher the ratio of consumption, the more productivity there will be at all levels of distribution and production on the long list of ingredients that are used in the manufacturing process.

Our basic approach to all of our promotional



activities is designed to expand the market and not to merely trade business with competitors, nor do we make an attempt to merely buy the short-term favour of the homemaker via the route of reduced prices at the retail level. We believe that consumers will purchase products based upon the value, service and convenience they represent in their minds and not simply because of periodic price activity.

General Mills does engage in other types of promotion, and these programmes are only utilized after a very clear evaluation of the particular promotional plan in relation to local market conditions and our own consumer activities. For example, we will periodically participate in cooking school programmes being conducted by some of our customers. The format of this programme generally involves well organized platform cooking schools that are conducted in Canadian Legion halls and other auditoriums, and the attendance at these schools will often run as high as 500 to 600 people per session. The demonstrators are well qualified home economists and they do an excellent job of acquainting homemakers with new ideas which enable them to manage their budgets economically and, at the same time, provide variations in meal planning.

Even though a programme of this type may be sponsored by a given account, we participate primarily because of the value to the consumers and in recognition of the fact that the women who attend these cooking schools are actually customers of all food



retailers in a given trading area. In other words, we are selling consumers and providing service regardless of where they shop, and this can be beneficial, as we have seen in our own sales figures, for the majority of retailers in the trading area of the cooking school.

There are times when we will participate in special radio or TV programmes being sponsored by our customers, and here again, we evaluate completely this particular kind of activity.

Basically, General Mills uses national advertising whether it be television or print media, and then to balance our programme, we will very often use radio on a sectional basis. In view of the fact that national advertising does not do the complete job in every market, we periodically utilize programmes, provided by distributors which will enable us to have a more effective coverage in some of our sales territories. For example, in the Province of Quebec, it is very difficult to use national media and still do an effective job with consumers. However, the volume of business that is transacted in some of the smaller markets such as Lake St. John, Three Rivers and other markets of this size, makes it vitally important that we do an effective job of advertising in these areas, at least periodically. On occasion, sponsored radio programmes have enabled us to do a better job of servicing these areas that are not reached through other consumer activities.

Other types of programmes such as special display promotions are also utilized and again the use



of these is predicated upon the rendering of specific services and performance.

In summary, we feel that these types of promotion can be beneficial to the industry and to the producers and, most importantly in the final analysis, to the consumers.

The Commission has also inquired regarding the effectiveness of promotional activities, and specifically the impact that this may have upon sales volume, profits and prices. General Mills does engage periodically in both premium and coupon operations, and our experience indicates a correlation between the use of these premiums or coupons and the eventual results in terms of sales.

We believe the important point here is the manner in which these programmes are projected to the consumers and the ultimate objective in terms of consumer satisfaction and increasing of sales. For example, we would not entertain the idea of developing a good consumer franchise on our products and then completely nullify this by using sharp practices that involve misleading claims or inferior premiums. A coupon operation can be an effective means of inviting consumers to try other products a company manufactures. Generally speaking, our coupon activities are confined to our own products, although occasionally we will arrange for a promotion with some other food item that has a direct relationship to the food idea that is being promoted to the customer. A case in point is the current promotion we have on our Bisquick baking



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mix which contains a package of dry yeast. This entire campaign is designed to stimulate yeast bakings from Bisquick and, as an example of consumer appreciation -- our Betty Crocker Department has received more complimentary letters from consumers on this unique and easy food idea than we have received on any other promotion launched this year which involves a new idea in baking. This response has been outstanding in spite of the fact that this promotion has been running for only four to five weeks up to this time. Here again is an example of our desire and attempt to stimulate a broader consumption of established products by providing consumers with new ideas for the use of these items.



As it applies to premiums, whether it be on our baking mixes or cereals - these items will represent an outstanding value to the consumer and will be an item of good quality that will not create any disappointments once the premium has been received. Obviously, it would not be good business to spend money, time and effort in developing a basic business and then cheapen one's efforts or destroy consumer franchise because customers were disappointed with a particular premium.

Another important element in this area of in-pack premiums is the impact that it can register upon production stability. It is obvious to us in our business that due to planning, activities of this type take up the slack during so-called lull periods. We have been able to maintain a good level of productivity and, as evidence of this, we are very pleased that we have not had a single lay-off or shut-down in the past 15 months. When well organized plans can make this kind of a contribution during a period when strikes and lay-offs are running heavy in industry, we feel that the utilization of these activities in our total consumer merchandising programme is well worth while.

A question has been raised with reference to special pack deals and, generally speaking, we do not use this distribution technique except in connection with the introduction of certain new



products and, here again, this kind of programme is available to all accounts. We strongly feel that tie-in deals or banded units and similar activities are a penalty to our distributors and retailers, as they generally involve duplication of inventories and a certain amount of confusion for the retail grocer. If we have an occasion at any time to use this type of promotion, it is usually on what we call a "flow in basis" which means that the special package then becomes the retailer's regular inventory of a given item.

From the manufacturer's viewpoint, point-of-purchase materials are not generally considered to be an effective means of attracting consumer attention today, as most well organized distributors have their own facilities which enable them to provide merchandising materials that will tie in better with their own programmes. We occasionally use point-of-purchase materials on new product introductions but, beyond this, our primary interest is in the area of programmes that will provide retailers with a store-wide sale campaign. This type of material is often referred to as "spectaculars" in the industry and is generally used in conjunction with special holidays for the development of special food ideas for consumers.

In connection with package and size changes, a change is made primarily to provide greater impact at the shelf level. The only other changes may involve attention-getting flags that



refer to special offers, and of course there are periodic changes on the back panel of our cereal packages which are designed to be of interest to children or adults. There are many things a manufacturer can do that are extremely educational in nature to children. For example, several months ago the back panels of our cereal packages provided very excellent historical stories relating to the explorations and the development in Canada in the early days of this country. These panels carried the story in both English and French, and we received many favourable comments from school teachers across Canada as to the effectiveness of this particular programme.

Generally, we use premiums that children not only enjoy, but they also provide a source of instruction or knowledge. For example, we are currently offering a series of "How to Play Hockey" booklets, a guide to the Exploration of Space published by C.S. Hammond and Company, and a World Atlas and map set. In the past we have used a collection of R.C.A.F. crests which brought many favourable comments from R.C.A.F. stations and Air Cadet squadrons; a Waterman's pen and pencil set which was honoured with a "Premium of the Year" award; and a beginner's stamp collection. Premiums such as these have a strong appeal to children and also receive the commendation of mothers.

As it relates to package sizes specifically, we believe that our responsibility to the consumer



is to provide packages that state the ingredients and the quantity of product, and these are clearly illustrated on the front panels of our packages. I might add that we clear our package designs with the Department of National Health and Welfare in our effort to conform strictly with their recommendations and regulations. The Department has always been most helpful in clarifying and interpreting their regulations. We believe the package should reveal to consumers just exactly what they are receiving for their money, and there should be no intention whatsoever to confuse or mislead them by using over-sized packages in any shape or form.

The cost of package changes is virtually negligible in view of the fact that we plan these well in advance so that they become a normal part of our printing runs on various packages. The premium and coupon operations likewise are not reflected in terms of cost to consumers (I would like to add "not beyond normal shelf price", the reference being that we do not market the product and then the premium and charge the consumer for the package and also charge for the premium. That is the thought I had there, so I thought I should add "not beyond normal shelf price") and any minor internal expense is offset by the increased production and volume that result from well organized consumer activities.

With reference to the wide variety of products and brands and the difficulty in identifying quality, this, in itself, does not necessarily mean



confusion to consumers. Food products do not differ from many other categories in this respect. There has always been available to the consumer a broad choice in shoes, hats, dresses, suits, automobiles and hundreds of other consumer items, yet this is not confusing since tastes and desires differ to a marked degree. The same is true in food products, and any area of confusion can generally be traced directly to the manufacturer for not providing consumers with packages that clearly state the ingredients, proper weight and directions for use. Wherever malpractices prevail in this regard, the company and its brands will eventually suffer. We believe that the leading food retailers are also doing an excellent job in working with manufacturers in expressing their comments when they feel that there is any confusion - particularly in the area of packaging.

We firmly believe that products and packages should convey to the consumer exactly what she sees on the retail shelf without any misrepresentation and conform to D.N.H.W. regulations. Packages that are over-sized are not necessary, as packaging equipment can be adjusted to conform to the quantity of ingredients contained in the package. There might be an unusual circumstance with a given product, but this does not apply to a line of products. We, at General Mills, have a very strong feeling in this area of our consumer activities, and it is not our intention to gain consumer favour through temporary



impressions gained with slack-fill packages.

Packages that are misleading to the consumers are not only injurious to the manufacturer's brand, but they can also have a direct relationship in the consumer's mind to all products sold within the classification. It is the responsibility of manufacturers to avoid any misrepresentation in terms of their packaging operations, and it is therefore the responsibility of the industry to police its own activities.

Every product General Mills markets is pre-tested in blank packages through a homemaker panel to determine interest, service, value and convenience, and the results are the determinant as to whether or not we will market the product.

Continuous research to ascertain consumer attitudes is very important to General Mills. This applies to packages as well as to products. Wherever there may appear to be some similarity in a product group, we clearly identify the difference on the packages with various colour combinations or illustrations.

A very important part of our marketing operation is communicating to the French Canadian homemaker in language that she clearly understands. In this regard, General Mills uses a highly regarded and efficient French language consultant in Montreal in order that our packages and advertising will convey the proper meaning. In fact, we have been complimented by many important French Canadian



people in the food industry for what our company is doing and has done in providing adequate French on our packages and in our advertising which has raised our packages to a very high level of interpretation and complete knowledge of what the home-maker is purchasing. Incidentally, all of our packages are bilingual, and this enables us to provide maximum service to the French-speaking home-makers who live in the province of Quebec and other areas in Canada.

In summary, if confusion exists, it is unnecessary. Manufacturers can and should conform to C.N.H.W. regulations and maintain a high level of responsibility to consumers.

In connection with promotional activities such as coupons, enclosures and advertising that are well conceived, we strongly believe that these very definitely increase the consumption of breakfast cereals and other types of food products. Whether it be a short-term or a long-range approach, the awareness stimulated, as well as the motivation created, has a bearing upon consumption. The effectiveness of specific programmes designed to expand the market has a direct bearing upon the use of "raw materials" and the size and stability of the labour force.

Basically, General Mills merchandising is designed to create interest in cereal grains from the standpoint of nutritive values. The "Better Breakfast" theme has dominated our consumer campaign



and reflected a sound approach of selling parents on the reasons why children should enjoy the various cereal products we manufacture.

The "Better Breakfast" theme, while doing a good job of education, does not do the total job of maintaining a good level of deliveries. Conversely, the periodic use of in-package or on-package promotions and coupons can be very definitely related to increased delivery trends. Our statistical delivery figures and share-of-market trends clearly reflect the importance of well-conceived and responsible advertising and promotion.

During our relatively short period of marketing -- approximately four years in Canada -- there have been times when, for budgetary reasons, we have either decreased or increased our advertising and promotion, with the result of obvious impact upon our sales volume.

The importance of good, corporate conduct is ever present in our planning. Programmes designed to broaden the base of a market, rather than creating a shift in purchases or between brands, is our objective. It is interesting to note that the ready-to-eat cereal market has expanded roughly 6 per cent in tonnage in the past four years. This trend is encouraging and reflects a higher level of eating a "Better Breakfast" which ties in with good nutrition principles and creates a better and broader market for the farmers' cereal grains.



The motivation factors in cereal merchandising can have a direct bearing upon whether or not families will eat a good breakfast.

The impact of sound advertising creates an interest nutritionally and the impact of sound merchandising creates an interest that motivates adults and children to "buy now". It is an established fact that children are often responsible for a good breakfast being eaten by the entire family.

The effectiveness of sound, promotional planning not only creates broader consumer awareness to a product, but these programmes are often very educational. We believe in good quality mail-in offers and/or in-package premiums. Basically, we strive for useful and educational-type premiums at a recognized good value to consumers.

An important element of sound advertising and promotion is the stability that can be reflected in production schedules and the steady employment of a local labour force.

The factors outlined have a definite bearing upon productivity and sales volume which, in turn, enable us to maintain a fair level of prices to our customers. In developing and maintaining a consumer business, advertising without promotion, or a business without both elements would surely be in trouble. The combination of both has helped to create the high economic level that we, as a nation, enjoy today.



Mr. Chairman, and members of the Royal Commission, it has been a real privilege and pleasure to present this report to you. I trust that the information in this brief has been of value to your studies of the food industry in Canada.

THE CHAIRMAN: Mr. Ryan, I am not sure how familiar you may be with the processes of Royal Commissions. Actually, they have very considerable powers under the Inquiries Act, but they are given a great deal of latitude as to how they carry forward their work in the light of the problem they have to study. Our whole plan in this case, and particularly with respect to business firms, was that we would secure from them, by way of questionnaire which you received, the basic information with respect to operations of the firm that we thought was required for a full pursuit of our inquiry, and, in addition, we hoped that they would come forward to the public hearings so that we would have a chance to talk with them about some features of their activities. In the hearings we have no intention of getting into arguments. Sometimes we do get led into them, but that is not our intention or purpose; and it is not our intention either to dig deeply into the operations of the particular firm. However, your brief is particularly interesting to us: I think it is the most extensive discussion we have had on what might generally, I suppose, be called "promotional activities", although I notice that you distinguish between advertising and promotion,



and I might like your views on that in a minute or two. Your brief has concentrated on this, and this is an area in which we are very much interested. It is rather a foreign territory to us: Indeed, some of the language even seems to be a foreign language. In your brief there are a number of terms which I am not sure I really know what they mean. They are obviously trade terms, which are very familiar to you, but are not to us. There are a number of lines we would like to follow with you, bearing on this general area, but one thing we would like your help on is this: Would you tell us about how you test the effectiveness of particular promotional procedures? You use a great variety of them, obviously, from your statements here; you are using them continuously. You have referred from time to time in your brief to "the evidence that a certain technique has been successful" in a particular case.

MR. RYAN: Yes.



THE CHAIRMAN: Now, would you be good enough to tell us, and I am not trying to get you to disclose the operation of your own firm, how do you in fact test whether a particular device that you use in a particular situation has proved effective, and what are the criteria you use.

MR. RYAN: Are you talking there about the promotion of -- I made reference to one in 13 and one in 15 the mail-in premiums and in package premiums.

THE CHAIRMAN: Let us take the free deal.

MR. RYAN: Yes. Well now, about your free goods deal, there are many evaluations can be placed upon the effectiveness of that type of promotion, and it gets back to the manufacturer who is running that particular type of program. Now, all things do not work the same for all manufacturers, because all companies are not the same in their methods of carrying out their business. It may be, for instance, that company A may decide to do something that company C is doing because it looked as if it was good for company C. It may be when company A tries to adopt that, they do not understand some of the reasoning that caused the promotion to take place in the first place, so if they do not understand the basic background, and the fundamental projection of the program, they may in turn, using a term I use with our people, sometimes we want to avoid merely spinning our wheels. What we do in that area if we had one free buy 12 at the time of presentation of our program, to all our distributors, we



will then sit down with them and talk, "Now, how can we make this effective for you, how can we help you move more goods, and get them into retail channels." It will in turn go to merchandise, and packaging for the consumer, because if all these things do not react the promotion is no good to begin with, and the manufacturer has dissipated dollars which might be used in another form. Now, we have a rather rigid follow-through in that area, because money, even though some of us may despise it, it is a pretty important commodity, and we do not have any more to dissipate than any other company or any other person, so when we come up with a program we have to follow through our merchandising organization, our field salesmen, whether working in Edmonton or Halifax, Montreal, Toronto or Sudbury, wherever it may be that in each of the program areas, the effectiveness of the job they do will be very definitely measured, not only in the volume that is secured at the time of promotion, but the sustaining influence that program may have on the future development of our business, because that type of promotion is basically designed to be somewhat of a form of sampling. In other words, it is the method of reaching more people. Then, the reference I made to the cake mix business, one package per family per month, that is a very small business really, so the cake mix manufacturers get together to get the consumer to eat two cakes per month per family; we are developing an opportunity for the industry, and then each brand takes their



share based on the consumer vote.

So, in our sales analysis of these particular programs I would say that I could tell you whether the program will be effective before we even announce it, because some men will do an outstanding job of taking this program and recognizing it as a tool to create further activity in their specific territories, and reach more consumers, and you will see the developing trends in those markets following the introduction of a new program which is handled by our own people.

I would like to establish one thing: We do not at any time look upon this as merely a travel of goods from our plant to the wholesale grocer warehouse, because our independent process in the food industry, we recognize in our channels of distribution that we have to go from wholesale markets to retails, and from wholesalers to retailers, you have your central distribution warehouse, and chain stores who in turn supply their stores. We feel that --. I do not say it is undesirable that these are areas that are necessary if we are to get down to the consumer, for her to determine whether this product is good. The wholesaler is a very, very important factor in our business today.

I happened to sit in on a brief yesterday where reference was made that some wholesalers get more of the amount and some less. A wholesaler is doing a job of trying to stay in business, he



is the master of his own destiny. Just this morning I was in two of the most beautiful warehouses anywhere in Canada, and four years ago the brick and mortar had not even been started. This Ottawa market is an extremely competitive market, I would say probably more competitive than any in Canada, and that in this market, I would think, it gets the important retailing organization from the province of Ontario, and also from Quebec, plus a good segment of voluntary groups and independent retailers, and everybody who is working at their business and attempting to do a good job, with that thought in mind of servicing the consumer, is doing a great business; and our business in this market is moving along from there. That type of promotion when it is presented to these various distributors, you will get varying degrees of reaction on the part of the supplier. It is difficult to come up with any promotional program when you are going out to sell it to your distributors; that is going to be the answer to everyone's problems, because one man thinks it is terrific, and another man throws up his hands and says it is just another deal -- another gimmick.

Well, we do not feel that is the case, because what we are trying to do is develop our consumer business and whether the three buy 12 or three buy 15, is the best means of doing that, you may call it a degree of incentive to some of our distributors to do something perhaps a little bit



extra with our product. They have 4,000 to 6,000 items in their grocery stores, and they do not all get individual attention, as you can appreciate; so periodically it is important.

We may do that at a time when we are tying it in with a specific consumer promotion, which is a means of having what we recognize to be a good consumer promotion, and what you might call backing them up that distributor so the consumer will have the chance to cast her vote as to whether she wants this food idea.

Currently we have our "Betty Crocker" department which is a very important segment of our business in Canada. The girls have developed an outstanding item called the "Mystery Fruit Cake" which is a product that can be made from a package of honey spice cake mix or white cake mix, along with other ingredients. The cost of that to the consumer is about 50 per cent of what you would pay for fruitcake per se; they are like hats, they come in all sizes and they are like shoes, they come in various qualities, so a fruitcake may mean a lot of things to a lot of people, it depends on the nuts and dates and figs and everything else.

We feel this idea which we tried last year was a good idea, because there again you have the element of small families, and with a five-pound fruitcake they will be eating it until next Dominion Day unless they have friends in for Christmas dinner.



So, here is another idea to help the consumer, and I say this quite selfishly, in providing a consumer service, and a food idea that ties in with the Christmas season. With promotion of that type we want to be sure that, at least reasonably sure, the consumer will have a chance to get this, so we may support that particular activity with what we call a shipping allowance which is one free buy 15, or one free buy 12, whatever it may be.

That is available to every distributor in every market where we are presenting the program. We find it to be quite an effective gimmick, I say gimmick, I do not mean it is something you throw in the wastepaper basket, but that is a term expression I suppose.

THE CHAIRMAN: I am interested in following this up because we had someone before us recently who told us that they discontinued this method, because they found that their distributors did not play ball with them.

Now, this is obviously an incentive to the people who are handling your product to put some pressure behind it.

MR. RYAN: It is an incentive to handle an established product.

THE CHAIRMAN: Well, is this applied generally in new products that you want to push to carry this through with well established lines?

MR. RYAN: Yes, we will do it on both. Now, the frequency there is not as often as it may



sound. In promotion, in the way we are talking about it here, it could only happen three or perhaps six times a year. The point I am making is that we do do it, and I want to support why we do it, and why we think it is beneficial to our particular type of business. I notice some manufacturers have discontinued this, because they say it is not effective. Well, the only thing I can say is that if it is not effective in their business, they were very smart to discontinue it. We feel in our particular business that we can get some effectiveness out of it that has a definite relationship to our volume of sales, and volume of productivity, and in effect too, we find, that these periodic promotions of this type present challenges to our sales organization, it is what you might call separating the men from the boys; because the sales business, even though it seems very exciting -- I have been in it for quite a few years, and also in the retail end of the business before that for eight years, a salesman -- well, it is a very broad term, all salesmen are not salesmen.

This is what I am trying to say: You can have a lot of salesmen on the payroll, and pay them, but they are not all salesmen, some are just order takers. Periodically these special promotional programs will come along, and test the mettle of a young organization, it will separate the men from the boys, as I say. These boys recognize it is



good for their business, or their territory, at least he believes it is for him, and he goes out and tries to do a good job with it; and if he is successful in doing that, he certainly feels this was worth while for him, and it raises his sights and his imagination as to what he can do.

There is no limitation on sales of any good product, and it is a responsibility of sales-minded people to develop a higher standard of turnover on as many product classifications as can be done in that manner.

There again we have found that periodic promotional programs are a good challenge for our young sales organization, and it gives them a sense of satisfaction, and also we find it gives them more confidence, and we are very proud of our organization, and the compliments that we have been able to register in the food industry is a direct tribute to the energy they have applied.



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THE CHAIRMAN: Well, another piece of evidence that we have before us was that in planning these activities, this is done at the budget time; that is in preparing your annual budget you anticipate you will be doing so much of these different types of promotional activities, and you refer in your own brief to the fact that budget controls have sometimes limited the effectiveness.

MR. RYAN: Yes.

THE CHAIRMAN: But do you decide at the beginning of the year, as I say, when you are budgeting, that on certain products you will be engaging in this kind of promotional activity, but in another part of the year you will develop this?

MR. RYAN: Yes, Dr. Stewart, we do it in this manner. We may not relate it and pinpoint a specific product. In internal budgeting, our products fall into three classifications: cereals, baking mixes and cake mixes, and what we do is in our programme or budget that we will set up a reserve for a certain amount of dollars to be used in promoting baking mixes in the fiscal year. Of course, we do our budget planning around April; our fiscal year starts in June, and the ideas you put down in a piece of paper in April may look different to you when the cold weather sets in in November, because we say it is our promotional dollar for baking mixes. If the baking business hasn't been too brisk during the first six months of the year, these dollars are diminishing, because it is a poor rate projection.



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In other words, your allocation for promotion of that type could fall. But there are times when we can feel, well, this is a good time to do some of the cereals, this is a good time to do some of the cake mixes. That is generally as a result of a review of your last few years' business in which you make a comparison of the business in the previous year.

We have introduced quite a number of products of what you might call rounding off our consumer line of goods. We have not had a very deep background on these classifications. Some products we have produced just in the last month, for example. Well, it takes at least three months to get it going, at least six months to start to get a trend of whether or not a consumer really likes this product. We do not look on it really from the competitive standpoint, because I have never really found any of my competitors' signatures on my pay cheque. We look directly towards the consumer, to stimulate our activities with her.

THE CHAIRMAN: In that connection you use the term "share of market"?

MR. RYAN: Yes.

THE CHAIRMAN: Do you watch this?

MR. RYAN: Yes. We subscribe to the International Surveys Report, which is a consumer index across Canada, and that is a trend report; there is nothing valid about it. You cannot say it is the Bible for the cereal or mix industry because it just gives you an idea of what the consumer thinks of your product. We had it in Vancouver, Edmonton, Montreal.



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There may be times, Dr. Stewart, when the share of market can fluctuate, and perhaps you may be looking at your sales report in the month of September and the sales don't look too good at the 15th of the month and you wonder how it is going to shape up at the end of the month.

Well, maybe that doesn't look too good, but about that time the monthly report, presentation, International Surveys comes in and says that the consumers tell us that they are buying more of Betty Crocker cake mixes. So there may be a drop in index and yet the consumer business is going at a rather steady pace.

There is the Neilson study and there is the International Survey. Neilson reports the movement of grocery stores. Well, again that makes the horse race. We like to get back to thinking what the little girl with the pocketbook is deciding, because she might be thinking different to what the retail grocer is.

THE CHAIRMAN: Do you make spot checks or can you have this done for you? You try out a new promotional device. You want to know how effective it is?

MR. RYAN: Yes.

THE CHAIRMAN: You can look at your own sales. Do you take it deeper than this and can you get a study done for you to analyse the effect of that particular promotional activity?

MR. RYAN: Yes. If it is in the area of



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a reference to a specific thing you were concerned about, before projecting this across Canada and spending something which you don't know it will be good for business or not, we make what we call a consumer audit to kind of double-check and make sure somebody wasn't being polite or kind or happened to buy something by mistake.

Now, we have taken on occasion -- take suburban Toronto or small villages, small towns -- we may go into that market and try a test operation there, and, quite frankly, we have refused to go ahead with just as many programmes as we have decided to take up. For example, we can take in our coupon operation which can provide a reasonably good trend in that area. That can be accomplished in various ways. For example, you may have a programme operating in Ontario and Quebec. Well, we use different post office box numbers for each market, and if we want to pinpoint Sherbrooke specifically we may use another post office box number for that particular market. Then we have the coupon, and then they are all catalogued and we try to find out what was the penetration.

THE CHAIRMAN: My next question is related to these two pieces of evidence that have been put before us: one, that it is possible to get an immediate result from a promotional ---

MR. RYAN: A reasonable sample, yes.

THE CHAIRMAN: But there is an immediate effect. Your sales go up immediately, but gradually this tapers off.



The other piece of evidence is that you do something and build up your sales, but your competitors immediately do the same thing or something to meet it, anyway, and since they have done this your share of the market goes back to what it was before, you were stuck with at the beginning.

MR. RYAN: Well, it doesn't always follow quite that pattern, Doctor, because there are times -- and that is the objective we should have, of course; if you were going to run a certain promotional programme, then you are also looking for ideas that are going to sustain this higher level of consumer acceptance of your product. Now, obviously, everyone doesn't turn that trick as well as you would like to do, but the basic thing you can point to in that area, in the baking field and in the cake mix field, is that our share of the market has risen steadily and it has been a combination of various things we have done in our advertising and promotional activities.



THE CHAIRMAN: You do not think that there is an argument that you have got to keep changing things and doing something new merely because if you do not you are going to lose the market?

MR. RYAN: We don't. I might say in that regard, Doctor, we are not stampeded into doing things. Now, there has been considerable activity particularly in the cake mix field during the past year or two years, that manufacturers have participated in and sometimes the allowances involved are quite sizable -- quite sizable.

We have just said we will stand our ground, and if we take a little less business, we will take a little less business. But we do not want to be shaking hands with our bankers every 15 minutes just because somebody else is running all sorts of deals.

Quite frankly, Dr. Stewart, the thing we think is that we have been able to have our business appreciated in the minds of the consumer, of the value to her of our product at the retail level.

In other words, she will believe that basically that "Betty Crocker" layer cake mix, let us say, is worth 35 cents a package in the province of Ontario or Quebec, or in Winnipeg, or wherever it may be, and she has given us that vote, and helped our business, helped to expand our business by quite a wide margin. There is no question about it, and that has been done basically on primary sound merchandising, not involving price cuts or



what is known to the industry as "wheeling and healing", and we feel that the consumer is not -- We are all consumers. I am thinking of my own case, for example; if I were to go to a department store and find a sale on Tooke shirts, that they were a dollar off. If I had the money I would say, "I am going to buy a dozen of them because this sounds good to me".

If that \$4-price prevailing for the next four months instead of the next four days, I think I would be inclined to feel that somebody had taken me for a ride, because they got my \$12 and I got 12 shirts when I did not have to buy so many at the one time.

My wife is a pretty ingenious gal. She can do a lot better job running our money than I can, and she shops somewhat along these lines. In other words, she is not a price shopper, but she buys the food that she thinks her family wants to eat.

THE CHAIRMAN: One of the bakery companies tells us that what he found happened was that one of his competitors would wrap up doughnuts or whatever it was, in a nice new package, and that he heard about this from his salesman driver who came back and said "I can't sell your doughnuts". "This Mr. X has fixed up a pretty package". So the second firm immediately gets busy on a bigger and better wrapper than the firm that originally made the change in order to hold his share of the market.

MR. RYAN: Yes.



THE CHAIRMAN: But in the end you do not sell any more doughnuts. The consumer is just buying bigger and better wrapping paper. Now, the evidence that was quoted contained this statement "This is very silly, but there is nothing I can do about it". You don't feel the same way.

MR. RYAN: Yes, I do to this extent. There again the advantages of competitors over one another in terms of goods, or the services you can buy and/or the temporary changes that may come into your production operations or packaging operations, whatever it may be --

The story of the better mouse trap really goes beyond the ability of that trap to catch mice. Somebody has to be ingenious enough to come up with something that really did a complete job.

I would say, for example, a good package, or a new package simply because it is better is just a new package, and without the support of good sound administration, good sound advertising promotional departments, and first-class manufacturing operations -- manufacturing of quality products and then placing them in the hands of a good sales organization; that this package is not that good to do all those things; and that is what we call short-term gains.

For example, in our business we can hear of somebody that has got a brand new piece of machinery, and it makes 60 packages a minute instead of 45 packages a minute, so you say,



"Well, to be competitive with that, you have to go and buy this machine".

Well, if you were just going to buy the machinery without regard to the type of product and the other factors that go into satisfying the needs and wants of the consumers, ~~that is~~ ^{this is} a short-term gain.

I don't think that just because we copy somebody else that this is going to get you any more business. I think it is rather silly actually for the manufacturers chasing each other all around the territory, as I refer to it, because the food business, like many other businesses, is a very unique animal at times.

It seems that sometimes manufacturers are only worried about manufacturers. Retailers are only worried about retailers.

I have often thought of the impact for example of the Thursday night advertising in the daily newspaper, which is generally pretty well dressed up, and some people think that it will do a lot better job than others. It is just like Eaton's catalogue. Other people do a good job of selling food products through the medium of this Thursday night ad.

I would not want to be quoted on these figures, but I have heard reports that the average readership of Thursday night's paper is about 15 per cent.

Well, many of these distributors can hardly



wait for the Ottawa Citizen to hit the street at 3 o'clock on Thursday afternoon, so they can look at the other man's ad to see whether he will be able to cut his price by 6 o'clock, so he is at a competitive level, and the gals that take it don't even know this is going on.

The same thing happens actually in the case of manufacturers. Sometimes we may look to be a little immature, but you cannot afford to make mistakes if you are going to go around in circles in every direction simply because if somebody else does it. You are going to lose your own business when you take that type of chance, and you wouldn't have a business to lose anyway.

THE CHAIRMAN: The illustration I used about the bakery company brings me back to the last point I wanted to ask you. You have seen our charts?

MR. RYAN: Yes.

THE CHAIRMAN: Part of our problem are these falling prices to the farmer, and in the illustration I used I said you don't sell any more doughnuts, but in the end your consumers are buying bigger and better packages. And this point is extremely important to us. Actually advertising activities add to the markets for the farm product.

MR. RYAN: Well --

THE CHAIRMAN: Just a minute. May I just pursue that a moment?

MR. RYAN: Yes.



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THE CHAIRMAN: ! Again on page 16 you have reference to your increases in tonnage in the consumption of ready-to-eat cereals in the past four years of 6 per cent. I know this is an extremely difficult problem with which we are going to have to grapple, but is the increase in the ready-to-mix cereals or the total cereal markets? It is one thing if you increase your sales. This does not prove whether the total cereal sales have been increased.



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MR. RYAN: We are talking about total ready-to-eat cereal, which would take in our competition as well.

THE CHAIRMAN: Following this through, six per cent in four years is a straight-line average of $1\frac{1}{2}$ per cent per year?

MR. RYAN: Yes.

THE CHAIRMAN: I think that the population is increasing at the rate of about 3 per cent?

MR. RYAN: Yes.

THE CHAIRMAN: In other words, you are not keeping up with the increase in population; or, to put it another way, you must have sold this much because of the increase in population without any promotional activity?

MR. RYAN: That could be true. Then again -- and I don't have those figures with me -- but there again I am referring to this four-year period, and the only answers I do not have with me right now are how many of these children can now eat the ready-to eat cereal; in other words, some of them are probably still on Pablum -- still babies.

THE CHAIRMAN: Age distribution would make a difference?

MR. RYAN: Yes. There is a definite factor there, particularly when you are talking about a four-year span. There may be a lot of babies, but they are not Wheaties customers until they know Wheaties exist.

THE CHAIRMAN: You can see the problem we



have to grapple with, and we would like to know whether the total intake of cereals, whether it is ready-to-eat or hot cereal, has increased as a result of this total activity to sell?

MR. RYAN: I would like to pursue one part of your question there, and that is, you were talking about "Do some of these activities make a contribution to the market as such?" I can think of a promotion we ran about a little less than four years ago -- which is accurate enough -- and that had to do with our introduction of Angel Food cake mix as part of the cake mix classification. We had debated that for quite some months, whether or not to get into the Angel Food business in Canada, because the market was quite small. Yet, with our people in sales merchandising, and our agency people, we started to try and take the market apart and find out if there was a potential there for us, because the immediate counterpart -- and I don't wish to refer to what our companies in the United States do, because I have been in Canada for a long time and from the first day I landed here I forgot about what took place in the United States; that is behind me, and this is the market where I am making a living, and techniques can be decidedly different. In some items there are parallels that can be drawn. In the cake mix field there was little similarity in terms of the per capita consumption rate of cake mix for all companies in Canada versus all companies in the United States. Here is this Angel Food product limping along like an orphan. We



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thought it was a good opportunity, but we had to be pretty sure before putting in the equipment to make it and buying cartons, etc., and what we did was to take a homemaker panel, and we went out on a door-to-door study asking for impressions on the Angel Food cake mix. We asked the housewife whether she bought it in packages and, if so, why, and, if not, why not. We came back with two principal answers which stood out like two lamp bulbs in the dark: one, the consumer thought the product was overpriced for what she was getting, because, basically, they think in terms of Angel Food in grandmother's day when it was a 13-egg Angel Food. Well, they were getting one that was like $6\frac{1}{2}$ eggs, but the cost was more than 13 eggs. There was $12\frac{1}{2}$ and 14 ounces of Angel Food for 61 cents in package at retail. "The product is overpriced," says the consumer. We visualized marketing a 17-ounce package and try to make a reasonable profit for our operating expenses, and set it at approximately 57 to 59 cents. When I say "approximately 57 to 59" it is because until you do it, the paper work figures don't mean too much until you get your production cost, and so forth. That was one problem.

However, there was another one: in distribution in the Canadian market, there were not enough 13-egg Angel Food pans to make 13-egg Angel Food cakes. We called in three of the leading pan manufacturers in Canada and explained the problem. We took them through the Betty Crocker department, and we had one cake baked from flour and a store-baked one, and we



said, "That is our problem. We want to market this mix, and we don't have pans on the market to hold the product, and if it starts to run over the oven we will be better off not to come out with the thing. Well, Supreme Aluminum decided, "This is a real problem and a real opportunity." Opportunities and problems always go together; you cannot divorce them. They went into production of this pan and we got into a tied-in promotion with them: they bought packages from us and put it inside the pan and put it into hardware stores, and the consumer got a free package of Angel Food. They had to have a reason for coming out with the large size pan when their suppliers and distributors across Canada all had the small pan, and they said, "What do we do with the small ones?" Now, you can't tell them to eat them, but you can sell them on the idea that there is a reason for two sizes. That programme got under way and, to me, it has been a particular pet study of mine since that time because I have believed in it so strongly, myself, with the net result that the Angel Food classification has more than tripled since that time, and the consumers are buying Angel Food cake mix at a price, at the retail level, of about 25 per cent under what they used to pay for a small package. The Angel Food business today is No. 3 in Canada; it is right behind white and chocolate. One may say "Why?", but, consumers buy what they want, and there is an example of what developed through a group of people working together



the consumer. During that period of time you might say, "What happened to white cake and spice cake? Did they stop buying those?" Well, they did not. In fact, that has been the saving grace of the cake mix business, which has not been in too good a position in the last three or four years. It has been on a downward trend, and much of that was as a result of the approach on the part of the manufacturers in total to what I refer to as destroying the consumer value of a product. Consumers want to be serviced, and they want quality merchandise, but they don't want to be kidded that something is worth more than it appears to be.

THE CHAIRMAN: Thank you very much.

COMMISSIONER WALTON: I would assume that one of the reasons you have been able to keep abreast of things is that you have had an expanding market which has given you volume?

MR. RYAN: In the cake mix area?

COMMISSIONER WALTON: I was thinking particularly of cereal, with each one of the different manufacturers competing, and yet the cereal industry as a whole has gone up 6 per cent and, presumably, as long as the potential goes up, then if your volume is not necessarily down each year, or your competitors', then there is room for everybody to expand and we may come to a saturation point until the babies grow up to satisfy it?

MR. RYAN: Well, there is that possibility, but of course, I hope that does not happen because we



are not intrigued by the thought of putting out any 'For Sale' signs. I don't think there is any limit to what can be done in terms of developing the food industry in Canada. We have developed a wonderful food basket and we have pretty close to 17 million stomachs to be fed three times a day, and I don't think the consumption of ready-to-eat cereal has even begun to approach a plateau which you may say is stagnation, as between brands, for the consumer's share. It depends entirely upon what manufacturers do in total in their marketing programmes and in their nutritional approaches to cereals.

We are currently working on the introduction of two high protein cereals, and we were three months with the Department of National Health and Welfare on those packages alone before we set up our production test. First of all, the cereal had to measure up to certain protein requirements on the part of the Government. It took some doing, because we thought we had this thing all licked, and we thought every run of this cereal would be at a level which would meet the standard. You have to build in a cushion because the net result was at about the time you get ready to produce, the oat crop comes in and it does not necessarily follow that the crop for 1958 will have the same protein levels as did the crop for 1957. You can lose me there, because I am not a chemist, and these are the realities of life we are faced with in the retail organization. That is the work done with the Department of National Health



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and Welfare in that area, and these cereals were
tremendous products which may strike a note with con-
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One thing we found in these studies that the Chairman touched on, was the age levels. We find for instance that the highest rate of consumption for a product like "All-Bran" or bran cereals, is in what we call the serutan bracket, after 35. Well, we do not have a bran cereal, so we just do not have an opportunity of reaching these people. There are areas where you do not reach people. However, it may be that those people after 35 might want to live to be 85; and they think a protein cereal would be good, so we may open up a brand new market for that product. That is the kind of thing we have to try to do.

COMMISSIONER WALTON: Well, on page 12, you are saying the premiums and coupons are part of the promotion. This morning we heard a brief, the Retail Merchants Association in which, if I recall correctly, in the brief they had submitted recently, they said premiums and coupons and the like, they did not really feel were any more than a substitution for price reduction.

On page 12 you say the premium and coupon operations are not reflected in terms of cost to the consumer.

MR. RYAN: I qualified that, if you remember, I say the normal shelf price.

COMMISSIONER WALTON: But if in your particular industry, outside of promotion, using these other things, have you tried cost reduction to see if this is one of the things that is important to the



2 consumer and that they would buy? Is it ineffective in your view?

MR. RYAN: We have a variation in the various things that products that will reflect. For instance, you may take a good item that will do a great deal to stimulate your sales of that product, and it may be the price level. Then, there are other products that, believe it or not, you could cut the price in half, and those products will not move much faster. It depends to a degree upon the consumer: Acceptance of the product and the price. To give you an idea of how serious this can be, at times I have seen in my career this business -- at times a distributor or his printer would make a mistake, his product at that time would sell for 2 for 41 cents on a good week-end, and somebody made a mistake and said it was 2 for 11 cents. That has happened, and, depending on who is responsible for the ad, they have to re-run it. Probably someone gets fired, but the surprising thing is, even at 2 for 11 cents, you would think there would be trailer trucks to take them away to the homes, but it does not do the job.

A woman can only buy a certain number of cereals and use them at a normal rate of consumption, and expect the product to be fresh. We are not interested in the consumers taking 12 packages of Wheatees at a time, I would love to do it if they lasted for 12 days, but if I think they are going to last 12 months, then I have lost that



consumer, because the shelf profit comes into it.

Now, let us take a package that had the R.C.A.F. crest, that was actually a rather effective promotion, because boys and girls, even girls today have rather a keen interest in aviation, and space trips and everything else, and they see these things, and they buy them. That happened to reach those children, and perhaps they put a package of Wheatees or cereals in the family for the first time, and then because it was there, perhaps the adults started to eat it for the first time, and we have a new consumer of that particular product at least temporarily, and as long as we serve her properly.

Now, let us say you have a package with five cents off; a child is not going to get excited about it for one minute. He may have been the person who led the mother over to the cereal rack, and said, "I want this R.C.A.F. crest", but he would not get excited about five cents off, perhaps he does not know what it means.

COMMISSIONER WALTON: You know some women do not like that sort of thing, we have been told that.

MR. RYAN: I can understand that, because in our own family, there are times when things come in, and it is rather disturbing for me being general manager of the company, and going home and finding competitive products in the pantry, because someone has a better deal than we have.



COMMISSIONER DRUMMOND: You made a distinction, as the Chairman said, between advertising and promotion.

MR. RYAN: Yes.

COMMISSIONER DRUMMOND: We wondered at different times just what that distinction may be. What is your interpretation?

MR. RYAN: The difference between advertising and promotion, in a large term of reference, we say advertising is basically what we are bringing to the consumer, whether it be in the form of print, radio or television. A promotion is something that is more of a physical stimulation, it is created not only through the routine perhaps, but generally on the promotional side we say there is more man effort going behind the promotion.

As I was indicating to the Chairman some time ago, if we have a promotion, and if that promotion is designed to increase our business on a certain product or give our sales trend a bulge, unless something happens to that promotion after it leaves us, then we have only kidded ourselves so the sales department has to get into the act. They cannot get into the act to the same degree in respect of a national television show you may have on the C.B.C. Certainly he will ask the customers to watch the Bob. Cummings show on Sunday night, but he cannot tell them that 52 nights a year, because it loses its punch. Promotion in our terms of reference is directed more to consumers



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through our distributors.

COMMISSIONER DRUMMOND: Which is a way of saying, I take it, that advertising firms play a very little, if any part in promotion as such.

MR. RYAN: They may come up with recommendations at times. Now, our advertising promotion budget is a kind of a lump sum of dollars, but it is clearly defined, so you are not getting off on one track to the expense of the others.

COMMISSIONER DRUMMOND: In the middle of page 5 you say you are in competition for the consumer dollar in an extremely broad range of items, would you say that is really the type of competition that makes this industry highly competitive?



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MR. RYAN: Well, it makes it competitive for us in that area. Now, I don't think that that Term of Reference there exactly, Mr. Drummond, is totally responsible for this surely competitive business in the food business, because the food business today is a very competitive business. I think back in my day, for example, retailing -- I remember selling 100 pounds of potatoes for 79 cents, and you had to work twice as hard for a dollar sale. Even though there were fewer items and prices and wages were lower and everything was lower, the business was still just as competitive as it is today. I haven't sensed any relief because there are more items, that I am living any easier as a merchandiser of food products. This is a very stimulating business.

COMMISSIONER DRUMMOND: I would think it would be more stimulating and more competitive as those items increased?

MR. RYAN: Well, the stomach can only hold so much at a given time, and if the manufacturer is on the beam with the consumer, and if he is trying to get a feel, at least, of what she is thinking -- down in our bridge club at Port Credit, after the bridge game is over the conversation goes in two directions: the women go one way and they talk about food, and the men go another way and they talk about business. I admire my wife, for example, the terrific enthusiasm she has. Sometimes I don't tell her about it because maybe I will bore her, so I don't



want to bother her with all my problems; and once in a while she comes back with a package and she says, "You didn't even tell me you introduced this." Well, when you get that type of thing from your own family, I think it is wonderful.

We have got a lot of productivity available to us in Canada; we have a lot of things to be sold.

COMMISSIONER DRUMMOND: We have been told on several occasions that the modern store has something in the nature of six thousand items. There may be some of them non-food.

MR. RYAN: That is right.

COMMISSIONER DRUMMOND: In any case, the number of them is steadily increasing, and I take it from your brief that the number of your particular items is steadily increasing. Now, since you have just indicated that, at any one time, and I suppose at all times, really, it has limitations, chemical limitations, it must follow that as the total number of items expands, multiplies, the consumers as a class must take a smaller fraction of the total number of items?

MR. RYAN: Well, Mr. Drummond, there is a sequel to this parallel of the number of items and the number of items that are introduced in the course of a year. Now, I wouldn't want to be quoted on these figures. I think during the course of the year the average good, aggressive distributor who is trying to provide, within the square footage of floor space he has available, as broad an



assortment as he can physically do. He will take on a thousand new products a year, roughly, but while he has done that he has discontinued seven hundred, so the net gain at the end of the year is approximately two hundred or three hundred new items. So that is even a bit bewildering to some of my new customers who remind us how many there are, and then it becomes our responsibility to remind them how many they threw out.

Now, we are not in business to try to grind axes or prove points. We have got to be able to satisfy the consumer and the distributors in relation to our turnover. We have already taken off the market three products last year, and I will estimate this year we will probably discontinue about two more. There is nothing wrong with those products, except you may get into the area of a specialty flavour.

We had a Peanut Delight cake mix, for example, but after a while the people got tired of it. We made a rather intensive research on that before we tried to destroy the consumer franchise or take it off the market. So now the problem of Peanut Delight cake mix -- it is a child's food, dessert, basically, but the mother does the shopping and she says that Johnny can get his peanut butter out of the jar; I want to feed the others chocolate cake mix. So when we see ourselves in Toronto on a product that is going on a downward trend, we will surely try to reverse those trends, but we are not going to spend a lot of money on that, because if



the snow is starting melt, there is nothing will make it dry up very fast!

COMMISSIONER DRUMMOND: Now, let us assume that that certainly is the case, that a very large fraction of the items are thrown out for one reason or another. But you say a significant fraction of them are not only retained but there is a continuous increase of the number that are left. Now, it seems to me, as a consumer, to take any of those 250 extra items, that we must take less of every item that we take in order to do so.

MR. RYAN: Well, that varies to a degree, too, Mr. Drummond. Sometimes -- now, when you say 400 items that sounds like an awful lot of items, but about 25 of them might be in the fruit and vegetable class, and we are not talking about 200 new brands of cake mix or cigarettes. Now, I quote those figures, and I realize our distributors, who try to build up this wall of resistance, will dig down and give reasons why -- their walls are bulging -- but it has been the new products and new ideas that have really built the supermarket as we know it today, that is the business of providing the consumer with the finest bread basket Canada has ever seen.

COMMISSIONER DRUMMOND: Since the total number of items that have been sold is increasing as time goes on, and since we have these physical limitations, it seems to me that all firms, not just firms in your particular instance, but all food suppliers should all have to compete with all the



others for their share, that they must have to work harder in order to get their share as time goes on. Making it more concrete, perhaps, since we are discussing promotional type of marketing, as time goes on you will have to incur more and more advertising and promotional expense in order to get this same manufacturing marketing result?

MR. RYAN: That could be so if the company decided to be static, and even to the extent of being smug or proud of this wonderful product we have had over here for fifty years, but if it was losing consumer appeal, they could spend all the money and all the promotion behind it which won't revive it to the popularity it once enjoyed. We may, for example, find ourselves five years from now in some different food classifications, but we might also at the same time be completely out of one that you are talking about today, and Mrs. Walton and her friends and millions of housewives and mothers across Canada are going to decide that.

COMMISSIONER DRUMMOND: I might remark that since we are living in this extremely dynamic economy we are going to change as time goes on, but if it is likely to be the case that we are going to increase the number, then it seems to me we are going to have to get the result which I indicated before. Now, that would seem to indicate that as time goes on we could anticipate that those particular products which require or incur expense would become a larger and larger part of the total spread.



MR. RYAN: Well, Mr. Drummond, in that area the very thing that can determine the spread and the growth of your consumer advertising and/or promotional budget is the cost of the merchandise you sell, because we don't have any machinery in our plant that makes Canadian dollars, and all we can make is a product to sell for which we can get money back, and if our business is showing a downward trend to what it may be, then we would have to revise our consumer budget and appropriation, because there is a limitation to what can be done.

COMMISSIONER DRUMMOND: There is a diminishing return?

MR. RYAN: That is right.



COMMISSIONER DRUMMOND: That is the point, diminishing returns.

MR. RYAN: That is right, sir.

COMMISSIONER DRUMMOND: Would you say it very simply that you would feel in your industry or in your firm that you would be really competing when you are diversifying your products?

MR. RYAN: Well, it goes two ways. First of all you recognize as you come out -- we have come out with two or three rather unique products in the last several months. For example, meringue mix. You cannot say nobody else manufactures meringue mix and that the consumer would not be able to buy meringue mix. Maybe she would have bought a cake mix instead, but the point is that she would not eat all cake mixes and so she can also see this meringue mix, and we get one more area of this food purchase because in the dessert classification it is amazing in our Betty Crocker Department, which is a very very important part of our business in the Toronto plant -- if housewives are having a party, let us say a special kind of party, and there is not too much they can do to compete with each other in dresses because you can exhaust your husband's pay cheque pretty fast in that area, so sometimes you can get into this particular kind or type of entertaining that you do in food ideas that you are serving to your friends whether it is the girls or the bridge club or a church group or something of that kind. They will call at the Betty Crocker



department and say "We want to do this and so. How do I do this?" You see. The idea that she gets then at that time is worth a million dollars to her. The ideas we have with our product is the result of water dripping on the stone. Here is a case in point. We just recently came out with two chiffon cake mixes which are a very very difficult cake to make commercially, and rather rough to make at home. I don't know whether you have ever tried to make one, Mrs. Walton, but chiffon cake is not easy to make, so a very good friend of mine in the industry told me his wife was worried, she wanted to know when Betty Crocker was going to come out with a chiffon cake mix. I knew it was under consideration, but I didn't want to do any talking, so I couldn't say anything. We happened to be out at a dinner one night, and she said, I still want to have a chiffon cake mix. So, about ten days later we introduced one, and I wrote to her and I said, "Dear Vera: I am so glad that you are so happy with this new cake mix introduction, and I hope your enthusiasm runs off to your husband, Harry, who is going to have to find space for it in the supermarkets." She was only a party of one, but we have had many, many calls for chiffon cake mixes. Well, if the consumer asks us to go into business on something on which you can make a profit and provide a turnover, you would not fight with her too long.

COMMISSIONER DRUMMOND: This is based on



one of the questions Mrs. Walton raised in the middle of page 6 you say: "We believe that consumers will purchase products based upon the value, service and convenience they represent in their minds and not simply because of periodic price activities."

I interpret that to mean you feel that the consumers place certain values on the service and convenience and so forth, and that actually plays a bigger part in their determination to buy or not to buy, than any price deal you would be inclined to offer.

MR. RYAN: We feel very very strongly about that, Mr. Drummond, because there again price activity can at best -- if you are trying to run a successful and sound business only be temporary. If it becomes your method of doing business, you are starting to get into what we referred to as the huckster business; just trying to sell apples from a wagon. Then you have not established any brand loyalties for one thing.

I think the average housewife -- I may say -- in that area we recognize in our type of product of the baking classification, that we do not appeal to all of the consumers,,and we do not appeal to all salary levels or income levels because there is a certain amount of people who may have a family of 12 or 14, and who think it is far simpler to continue to bake a cake out of a 25-pound bag of flour.

Again, a very important part of our Betty Crocker Department is that they can conduct these



tours for homemaker groups, and bridge groups and church groups and so on who go through our kitchen and go through our plant and laboratories, and this brings back to us the story of the value they have received from our product.

COMMISSIONER DRUMMOND: I will close with this general observation you use, I think, around page 11.

MR. RYAN: Yes sir.

COMMISSIONER DRUMMOND: In explaining some of these advantages or the alleged advantages of some of these promotional practices, and I am simply observing that at least some of the people who have appeared before us felt that all of those engaged in distribution of food products are supposed to be selling food rather than such things as history and instructions in hockey, and a whole lot of other such matters. They think that is a business that should be left to those who are specially equipped or specially supposed to be organized for that specific purpose, and that all those engaged in the food business should stick to the food business. That is just an observation we have had and we have had quite a lot of it.

MR. RYAN: Well, Mr. Drummond, I will attempt to answer your question because that is probably the broadest question that has been broached in the last 15 or 20 minutes. Dr. Stewart and Mrs. Walton did pretty good too.

We do try -- we feel that nutrition is a very



very important part of our way of life today. Now, I am not saying we are sitting down in our western plant, or the other cereal manufacturers are, with halos on their heads saying we are just doing this for the poor suffering children of Canada, because we are in business to pay our bills, and to seek out an existence for ourselves, and this just happens to be the industry we have come to be in, you see.

However, you can stand up at the pulpit, and you can preach the word of God, and you don't get your stories through to all of the people. The same thing with ready to eat cereals. You can tell them how many muscles Wheatees will put in your arms, but until you get the Wheaties into their stomachs it won't reach the arm. Our problem is how do we get these things into the home in the first place, because basically -- I went into the restaurant here at the Chateau this morning and at noon today, and the restaurants are so crowded that you can't find a chair and I thought Oh boy, this is wonderful. If we could just get these people to eat the same amount of meals when they are at home, my business problems are at least partially solved because breakfast is a hit and run game in the average family.

I know in our own family, it was a cup of tea or a cup of coffee, and a glass of orange juice at the kitchen counter, and when the kiddies came into the family then you started to teach them all



things you did not pay any attention to yourself when you were their age. You say, "Now Johnny, you are going to sit down and you are going to have a full bowl of Wheaties before you go to school this morning, because you need something in your stomach". Then you are going to have to make a Christian out of yourself. You have to sit down and join him, and you have to eat the thing yourself.

Whether it was a hockey picture or something else that got that into the home, I don't know --. There are a lot worse things in the world, because there are many commodities that are on the market and sold, that do a lot more harm to families.

I heard an excellent story the other day. There was a sign that happened to be in a pub which had to do with one of these perpetual drunks that came in. Finally the bartender started to get conscience stricken about this man coming in and drinking all his money up, and wheeling out and probably going home and beating the wife and the kids, you know, so he finally got a sign, and he put the sign up. He says, -- these figures are not exactly correct, but they serve the purpose -- they put the sign up and he said "If you want to be a drunk, why don't you start your own business". You can go home and sit in your recreation room or your living room, and drink yourself silly every day and every night of the week. Then as you do this you give your wife \$55 to go down to buy a case of Canadian Club. Then you pay her 60 cents a drink.



Eventually from this \$55 you gave her, you get enough money to buy another \$55-worth of whisky, plus the profit. This can go on for all sorts of years. And finally the man dies of the drink, and his wife is rewarded from all these transactions by \$130,000 profit.

Now she can go out, and marry the kind of man she should have married in the first place.

So this is still ^{the} operation of these things. You cannot estimate what the people are going to do or what they are going to think. I am not sorry I am in the food business. I think I am in the best business in the world.

COMMISSIONER DRUMMOND: There is a very very interesting contrast between the practices being used today and those used in former years. I have rather a vivid recollection of sort of not wanting to take my porridge for breakfast when there wasn't sufficient salt or something like that, and the answer was very simple "You take it or you won't have anything". That was all that was necessary.

MR. RYAN: Dr. Drummond, the change there is very radical. Even while we are sitting here talking about them, I venture to say some of the ideas we thought about a month ago that we would be doing this winter are pretty well becoming obsolete. This is a pretty fast moving game today. These girls are stepping pretty fast today, and the money is flowing through their fingers today faster. Unless we are going to get on the merry-go-round and grab some of those brass rings we won't be around.



KK
RY:iz
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COMMISSIONER WALTON: By implication

I would assume customers have a short-time memory on prices or price reductions, and that your promotional is a long-range and serves the purpose of promoting ---

MR. RYAN: That will vary by products.

COMMISSIONER WALTON: Yes?

MR. RYAN: That reminds me: about three or four weeks ago I was out playing golf and there happened to be a chap and his wife ahead of us. The leaves were falling pretty fast and she lost a golf ball in a pile of leaves. They were taking a sort of a circular course, looking for the ball, and he came back to where she was, and they had let three four-somes go through while looking for the ball, and I said, "Are you going to spend the whole day raking leaves?" And she said, "If you had to manage the money in my family you would look for it too. He would have put down another one and played on. A dollar is a dollar to me." Now, in something else a dollar may not mean anything to her. It is the difference between consumers' interests. We can take as an example the prices regarding soap, because, regardless of the commercial impact and the ideas dreamed up by geniuses, there is no good quality soap on the market today that will remove the skin off anybody's hands. It also depends on the purpose you are going to use it for. However, in a package of cake mix the housewife has to do something with it, and I think the strongest point in our favour in the cake mix business today is because we happen to have a



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fresh egg cake mix where, at least, she is not completely brain-washed; she has to do something with our product. She has to make it up, and she has to take her two little hands and break the egg and make up this cake. That gives her a feeling of doing something with the product. So, the responses that you get will vary a great deal as it applies to the various products.

THE CHAIRMAN: It has been most interesting, and thank you very much, Mr. Ryan.

---Short recess.



Submission of
THE CANADIAN RETAIL FEDERATION

Appearances:

Mr. E. F. K. Nelson

General Manager

THE CHAIRMAN: We will hear a submission on behalf of The Canadian Retail Federation to be presented by Mr. E. F. K. Nelson, General Manager.

---EXHIBIT NO. 36: Submission of The Canadian Retail Federation.

MR. NELSON: Mr. Chairman and members of the Royal Commission, this submission has been prepared and is submitted by the Canadian Retail Federation on behalf of its retail food membership.

The Federation is a voluntary retail trade association, national in scope, which includes in its membership both individual companies and other trade associations. Its direct membership includes most types of retail store operation ranging from single medium-sized establishments to large corporate organizations. These are distributed from coast to coast and include many varieties of independent, chain and departmental stores.

Nearly forty national, provincial and municipal associations hold membership in the Federation. These remain fully independent bodies which, from time to time, find in the Federation a central



medium to be employed when the interests of its components seem to be best served by cooperative undertakings.

Factors Affecting Food Distribution:

Changes in our society play an important part in shaping food distribution. Canada's system of food distribution forms part of the society and economy that it serves. It seems worth while, therefore, to note that the Canadian society and its economy are far from static and that they have changed over the years, often at an uneven rate, and are continuing to change and evolve. Where once Canada's population was to be found mainly in its rural areas, now the biggest percentage of Canadians live in our urban centres, which have tended to develop widespread suburbs. Some three million of seventeen million Canadians live, for instance, in two great metropolitan areas -- Toronto and Montreal.

Our real incomes are larger than they once were and appear likely to continue to grow. The availability of some extra income over and above that needed for the basic necessities of life is reflected in a Canadian standard of living which, while varying among individuals and different parts of the country, must still be considered to be very high in terms of most human experience past and present.

The portion of our labour force centred in agriculture and other rural occupations has decreased as workers have moved to our towns and cities, into the factories and the various commercial and service industries. This shift of workers from agriculture



seems to reflect two changes -- 1, an increasing productivity in agriculture enabling a smaller work force to produce more than was previously the case, and 2, increasing urbanization tending to increase the complexity of distribution and to create an upward pressure on its costs, requiring more efficiency on the part of the distributor to avoid a widening of the price spread.

The continued trend in agriculture to specialization in geographical areas is also worthy of note. The market area presumably must draw on more remote regions for its supplies, increasing the demands upon transportation and distribution.

In terms of percentage of the labour force, the participation of women has been increasing steadily. Women constituted 13.3 per cent of the labour force in 1901 and 23.0 per cent in 1956. In 1956, 1,361,000 women were in the labour force representing one quarter of the country's female population of fourteen years and over. This included almost a quarter of a million married women in the labour force, not counting those divorced, widowed or separated. The working wife is, therefore, an everyday phenomenon of mid-twentieth century Canada and the combination of the resultant increased family income and extra demands upon her time have had interesting effects upon the demand for processed and semi-processed food products.

The general use of the motor car has played its important part in the development of shopping centres and the large supermarkets of today, which



must draw on a widespread population to economically justify their dimensions.

These are only some of the factors that have helped to shape the food distributive system as we now know it, but they will serve as some indications of the relationship between a changing society and economy and its food distribution arrangements.

Food Distribution: Food distribution is complex, subject to competitive pressures and changes in form. While manufacturers and processors have their distributive function, distribution is normally divided into two parts -- wholesale and retail. It is typical of our complicated economy that, while these two functions can be often separately identified, frequently they are blended together into one overall operation. Thus, in addition to the wholesaler and the retailer as they once existed quite separately, we now have retailers performing the wholesale function and wholesalers so identified with groups of retailers that the combination operates as a single team.

Today in Canada most food is sold at retail through what is known as the combination store -- that is, the store that sells both groceries and meats. However, significant quantities of food are also sold at retail through a variety of other distributive agencies. There is the individual independent grocer and the voluntary chain created out of an alliance between wholesale and independent retail entities. The consumer co-operative deserves a separate classification because, while as a store it is



frequently physically similar to others, it operates on a different basis of ownership and financial arrangement.

The corporate chain has become significant of late years and the smaller independent multiple shop operator is becoming quite common. The department store has in many cases left the food field but food is still a significant item in other department stores, some of which also have connections with wholesalers and voluntary chain organizations. The general store is still a factor in the food business, and the independent meat dealer, the fruit and vegetable store, the farmers' market, the door-to-door salesman and the wayside stand are also components of our food distributive system. It is worth while noting here in passing that some chains have taken over wholesaling functions, buying directly from the manufacturer or farmer and operating their own warehouses.

The two major types of food retailers are often classified as chain and independent. This classification, however, tends to ignore other important elements mentioned above, and in any event casual identification is often rather arbitrary and somewhat unreal. Any comparisons made here between the chain and independent food distributor are simply for the purpose of noting typical characteristics. It must be realized that the dynamic development of both types of food retailers keeps them in a state of more or less constant change as they attempt to adapt themselves and their services to what they conceive to be



most acceptable to the consumer. This results in a considerable blurring of the lines of demarcation between them. It is generally true to say that the borderlines between the various types of retail food distribution are tending constantly to shift as each form changes and adapts itself to meet competitive conditions and consumer demands.

Independent stores are generally single proprietorships or partnerships and chains in their larger forms are often corporations, but multiple units are no longer uncommon among independents and the development of the voluntary chain in a variety of forms represents a type of chain operation characterized by individual ownership of one or more participating outlets and combining the retention of ownership with the business discipline, the volume and the efficiencies typical of the corporate chain.

Identification with the neighbourhood served, individual services and personal contacts by the owner are advantages or characteristics usually associated with the independent store. The efficient combination of the wholesale and retail functions, large investment in warehouse and supermarkets, wide parking areas, and the opportunities for careers that larger firms can offer are some of the characteristics of the modern chain. It should be noted, however, that some of these characteristics are sometimes being assumed by independent organizations.

It is probably not pertinent to this brief to review the competitive history of the corporate chain



and the independent food merchant. The information relating to this is readily available in the annual reports of the Dominion Bureau of Statistics and no doubt has already been studied in detail by the Commission.

The structure of the food retailing industry has changed at an increasing pace over the years and these changes reflect attempts on the part of food retailers to adjust to changing conditions and to develop more efficient ways of offering their services to the public. In the past three decades there have been three significant developments which have changed methods in food distribution considerably. The growth of the chain store, the development of self-service, and the introduction of the supermarket have all resulted in drastic changes in food retailing.

The significant growth of the chain store began in the 1920's. The drift of population to the cities and the widespread use of the motor car created a concentrated market sufficient to allow the chains to apply mass distribution methods to food retailing in much the same way as industry has developed mass production techniques.

Their growth was based on operating efficiencies in distribution. The chains were able to assume the wholesaling function through the combination of the purchasing power of numbers of retail outlets. This resulted in the elimination of some of the activities which were required when the independent wholesaler was distributing to a large number of individually-owned stores. The chains were also able to develop



specialists in buying and in management and to provide a close coordination of the wholesaling and retailing functions under one management. These changes resulted in lower operating costs.

The chains were offering a somewhat different bundle of services. They sold for cash and largely eliminated free delivery. Thus, they passed on to the consumer some of the retail functions. They also concentrated on high-turnover items intended to eliminate the high cost service of providing specialty items, all of which resulted in lower prices to the consumer. In view of less risk of deterioration, smaller storage space was required per unit of sales, and lower cost for inventories. The chains displayed the ability to offer uniform quality and to inform the public by widespread advertising of prices and services offered. The chain, then, was able to offer economies of scale at the wholesale level and the economies of standard services to all customers.

Self-service has been the key to much of the success of the modern food store. Offered first about 1916, self-service is now involved in a large percentage of retail food sales. Indeed, considering the enormous quantity of merchandise passing daily through the larger stores self-service has become literally an economic necessity to most food merchants of any size, the same being generally true of "cash and carry".



Self-service during the inflationary years has been an economy without which food prices would have risen further than has actually been the case. Under self-service the products, plainly priced, must sell themselves. Standardization of quality and quantity and the acceptance of these by the consumer must be automatic or the product will not continue to sell.

Packaging in consumer-sized units was also influenced by self-service - to which it is in fact a necessity. Self-service has given the consumer unhampered freedom of choice, limited only by the variety of merchandise offered for sale. Such limitations are imposed mainly by the requirements for display space. However, the generous floor area of the modern supermarket and the variety of competitive products do result in a wide choice of items. It should be noted, moreover, that self-service and packaging have not forced the consumer into the purchase of prepared or semi-prepared foods; raw ingredients are still freely available.

In general, food processing, packaging, canning and freezing have one common aim. This is to offer merchandise that will appeal to the eye and to the appetite while at the same time offering to the homemaker lightened household tasks, saved time, and in some cases out-of-season benefits, all at a cost that will be acceptable.

In the degree that the appeal of these things has been correctly judged the producer of them should



2 be successful. The term "built-in maid service" has become rather commonly associated with processed foods. The term attempts to describe the process of replacing household drudgery with the results of the efficient and economical production, processing, transportation and distribution of foods.

To the extent that this has added to the price spread it has done so because the purchasing housewife places a higher value on the saved time and labour than on the price paid for the service. However, it seems fair to assume that the price must be acceptable or else the service will not be bought.

A significant development in mass distribution was that of the supermarket, which continued the economies of scale into the retail function. Provision of parking space has made it convenient to use the motor car for shopping and that vehicle has brought large populations within effective range of the supermarket.

By virtue of its size the supermarket, corporately or individually owned, permits a much wider range of merchandise to be carried than was the case with the smaller store, and a trend toward the purchase of more goods per trip has developed. One result of a greatly increased average sale is lower costs per sale. Developments in food retailing, regardless of their origin, tend to be seized upon by competitors. For instance, the supermarket is commonly associated with the corporate chain



but supermarkets are owned and operated by independents also and this appears to be happening on an increasing scale.

Self-service is typical of the chain operation - corporate and voluntary - but it is also to be found widely among independent stores, food departments of department stores, and elsewhere. The same applies to cash and carry. In short, the whole picture of retail food distribution is in a constant state of change and probably the one certain thing about it is that it will be different tomorrow from what it is today.

The Retail Function: Buying for and selling to the ultimate consumer is the retail function. While the retailer handles commodities, essentially he performs a service. This service insofar as food is concerned is carried out in a variety of ways and often in connection with other retail activities. The most common method is through the operation of combination stores but in a previous section we discussed some of the other agencies through which the retail distribution of food is carried out.

Moreover, it must be remembered that several forms of retail food distribution involve a combination of wholesale and retail functions. The purchasing patterns here differ and it is difficult to compare such organizations with the purely retail establishments. The economic justification of the food merchant lies in the function performed for both



producer and consumer. The special justification for a particular kind of food retailer must be a better or a more acceptable performance of these functions than other methods could offer to a particular group of consumers in a particular market area.

The productive process visibly adds value to goods by changing their character in ways that make them useful to society. The distributive process also adds value by providing goods in the required quantity and quality at the right time and place as required by the consumer. The value added by retail distribution represents the value of the retail function to the economy. If this function is not required, no effort will prevent its disappearance.

Presumably the degree to which the retail function can be performed more efficiently is the key to the reduction of food distribution costs. It will, therefore, be worth while to consider at least in a general way the principal types of functions performed by the food merchant. These will vary from one retailer to another depending on the particular combination of services rendered by each and required by his particular customers. All, however, must perform three essential services -- buying, storage and selling.

Buying is obviously a vital service, since in a sense the retailer must act or try to act as purchasing agent and assembler for a variety of food products for his customers. Failure to buy well means



inability to sell or sales at a loss. The retailer's selling function is also obviously necessary.

This must include display, offerings at convenient places and times, and proper completion of the sales transaction.

The storage function assumes an important role, particularly as the popularity of frozen foods continues. Freezing units for stores and often refrigerated trucks have become major items of retail equipment. This equipment is expensive and tends to increase storage costs. However, so long as the consumer wants frozen foods the equipment and service must be provided or business will go elsewhere.

Not all functions are performed by all retailers. Some provide credit, some accept phone orders and offer delivery service, others grade their produce themselves to assure their customers of uniform quality.

In performing his function the merchant incurs costs. Payroll must be met for staff and for the expenses of supplementary employee benefits. Rent is involved or, if premises are owned, the interest on borrowed capital and the depreciation reserves that must be established to replace the premises in due course are a consideration. Light, heat and power must all be paid for, also supplies, services and insurance. The retailer pays for advertising to inform his customers of his offerings.

If he performs his services successfully he earns a profit. It is these costs and profit which



make up the difference between the selling price of the goods and their purchase price. The difference is known as the retail margin, (The terms margin, gross margin, mark-up and mark-on are often confusing. We use "margin" here to represent the difference between buying and selling prices) which is the total contribution made by the retailer to the price spread. The term "margin" is frequently misunderstood. It seems to have given the impression that the retailer stands like a toll-keeper on the distribution road, increasing the cost of the flow of goods without making a contribution to it. Because the physical character of the goods has not changed, it is difficult for many to understand that their use character has altered significantly.

From the utility point of view a comparison of potatoes on a Prince Edward Island farm with the same potatoes washed, graded and bagged in a supermarket elsewhere in Canada would be much the same as comparing the utility of iron ore to that of steel in its variety of finished forms. It is because the physical character of the iron ore has been changed that we are less likely to question the spread in price between iron ore and steel. Similarly the difference in price paid for potatoes on the Prince Edward Island farm and the price paid by the consumer in another part of Canada represents the value of the change in the usefulness of the product to the consumer, even though the physical character of the product may not have changed greatly.



To be successful a modern food retailer must acquire the right combination of service policies, prices charged and efficiency of operation within his market area and market structure. Unless it is possible for there to be some effective means of keeping out potential competitors, the retailer will be forced to adopt a combination of these things which will earn him a profit. His profit, however, can always be jeopardized by the appearance of new competitive firms if it becomes too high.

In food retailing the entrance of new firms is relatively easy, although more costly than it once was, while the development of new methods of distribution is a characteristic of the trade. The food retailer, therefore, is always in the position of having to try to find the right combination of policies and prices and of securing additional economies of operation if he is to survive.

In formulating a service policy the merchant must select the right size and location for his store and determine whether or not delivery is to be available and under what circumstances. Similar decisions must be made as to the granting of credit and the use of purchase bonus deals. He must select the comforts and conveniences, such as air-conditioning and parking, cheque-cashing facilities, etcetera, that he will be prepared to offer to his customers. The sum of these decisions will represent the bundle of services that he offers to the public at a given price. Should his particular bundle of services be



too expensive in comparison to what his competitors ask for a perhaps somewhat different bundle, the merchant will lose sales and have to change his offered services or his prices.

Having a store of the right size to handle his customers is of major importance to the retailer, and in this connection he must consider both the peaks and valleys of customer flow. A store may seem to be far too large on Monday morning but be quite inadequate on week-ends. A store too small for the peaks in the flow of customers will create crowded conditions and service delays that will discourage sales. However, if the store is too large for the available customers, its higher fixed costs must be met by a sales volume too small for the task, and the retailer's profits will shrink or disappear.

Retail Mark-Up: Mark-up on food products varies from time to time depending upon competitive conditions and the rate at which goods are moving out of the store. If sales are too small, additional storage is involved and losses will be suffered from spoilage of fresh produce. Such a situation results in lowered prices designed to tempt the consumer to increase purchases.

The retailer cannot arbitrarily set his prices, but he must make some profit if he is to stay in business. His operating expenses must be recovered, and the prices of competitors as well as the sensitivity of the consumer to food prices must be considered. He is limited in his pricing by the



actions of his competitors and the price and service policies that they offer to the public. If the merchant's price is too high he loses customers. If his price is too low he may gain customers but lose money because he has failed to recover the cost of his goods and his expenses.

It is difficult to compare retail profits. This is true within the food industry and in comparing the profits of food stores with other types of stores. Most food merchants sell non-food items on a common cost basis with food items. This makes it exceedingly difficult to separate the profits made on food from those made on non-food items other than by means of some arbitrary allocation of costs. Total profits will vary according to the ratio of food to non-food items and the competitive situation in both kinds of merchandise.

If a merchant rents his store and uses equity capital only for current operations, the profit will be different from what it would have been had he owned his own property. In the first instance the interest on the capital invested in the premises will be included in the rent and received by the landlord. In the second case it appears as profits on equity capital. If a firm is able to borrow capital it will be able to increase its profits on its equity by applying the earnings of the borrowed capital in excess of interest costs to the equity capital.



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The term "profit" iteself can be quite misleading when comparisons are made -- as for instance, between the net profit picture before taxes of chain combination stores and independent combination stores. It can even be confusing when comparing the profits of two independent stores. If a proprietor uses unpaid family help, the store will show more profit than one which hires its staff, even though non-wage costs and sales for the two stores are identical.

Although strict comparisons are really not possible, they are made on some basis by investors. Thus, if there is a high level of profit in the food retailing business, new firms will tend to enter and existing companies to open new outlets. The increase in competition and facilities tends to force profits down although fair profits may persist for a time if the movement into retailing lags behind the growth of the market. New or increased competition, however, can quickly turn profits into losses and expansion will promptly cease until the market grows and catches up to or passes the capacity of the trade.

An increase in competition, however, may not change the retail margins (or markups) seriously. The competition that exists may involve the offering of additional services. Whether or not margins will decline will depend upon the sensitivity of the customer to the appeal of price as opposed to non-price appeals. In the long term it may be said that the profits of the food retailer will depend upon his offering the bundle of services wanted by consumers at the price they are



willing to pay for this particular bundle.

Generally speaking, food margins have been kept low because of the continual need for increased operating efficiencies, but another factor is that food purchases represent a large portion of consumer expenditure and it may be expected, therefore, that consumers will be likely to be particularly price-conscious regarding food items. We would expect price competition to be prominent, even though other forms of competitive devices may be used.

If there are not enough food merchants to provide the services, new ones will enter the industry. If locations are inconvenient to markets, new locations will be sought and the old ones will disappear. If the proper services are not offered at acceptable prices, new methods will be devised to meet the situation. This leads to the result of food retailing constantly changing prices, services and methods to meet the conditions of the moment. The successful firms have been those which could offer the most acceptable bundle of services.

The chain supermarket has carried the economies of scale down through the wholesaling functions into the retail function. Its success will be determined by the type of market to which it appeals. So long as consumers like what the supermarket has to offer and are prepared to travel to it, so long will the supermarket flourish. There is a section of the market, however, which prefers specialties, clerk service, convenience, delivery and credit, and which



will continue to patronize the neighbourhood shop.

The extent to which food will continue to flow through all the various kinds of outlets will depend on the changing conditions of the market and the relative changes in the numbers of those who desire a particular kind of service at the price charged. One cannot eliminate the others if the different sections of the consumer market continue to exist.

The retail food business is one of the most competitive sectors of the whole highly-competitive retail trade. This has tended, over the past decade for example, to ensure a continuing drive for efficiency and has prevented the price spread from widening further. There may be short periods of time when margins have increased, but competition works in the long run to ensure that low margins are maintained.

Taxation: Any detailed analysis of the specific effects of taxation on the price spread seems to be beyond the limitations of this brief but some points may be noted.

Municipal taxation enters into the cost of business of the food retailer and of the various stages of processing, packaging and distribution behind him. It is generally accepted that municipalities today are faced with kinds of demands upon their revenues which were not contemplated at the time of Confederation. In any event, the demands of municipalities for revenue have their effect upon increased costs.

Sales or commodity taxation is often



regarded as having little, if any, effect upon the food business because most food products themselves are generally exempt, However, much of the equipment and supplies used by distribution and to some degree those used by processors and packagers are actually subject to sales tax.

Involved here is not only the federal general manufacturers' sales tax but also the retail sales taxes of those provinces which impose this form of taxation, with one exception, that is New Brunswick, the provinces imposing sales taxation seem to have a general tendency to tax goods used in production and distribution. The particular province that does not do this largely follows the practice of the federal government, which still means that most goods used in the business of distribution are taxed even by this provincial government. The provincial taxes are, of course, applied to costs which may already involve some federal sales taxation at an earlier stage.

I may say, as an aside, Mr. Chairman, that effective as of January 1st additional provincial tax may appear in Nova Scotia, shortly to be followed by one in Prince Edward Island. We are happy to say that we are not going to impose tax as in the case of New Brunswick.

It is **very** difficult to assess fully the effect of taxation in its various forms on the price spread of food products and we probably do not yet understand completely the full effect of sales taxation on our economy. Undoubtedly, however, the impact



of sales taxes on articles used in production and distribution, particularly the latter, do considerably affect the cost of installations and of materials used, often in large quantities, in distribution -- of which wrapping materials would be only one example. In general, taxation does play an important role in final costs and there is not much indication that this effect will be decreased with the passage of time.

Also worth noting would be the upward pressure on costs of social security measures such as old age pensions, workmen's compensation and unemployment insurance. All of this represents a formidable accumulation, to which the cost of governmental hospital insurance will no doubt add something. It is certainly a factor to reckon with in considering an increase in the price spread over the years.

In Conclusion: Finally, through our food members, we would propose for consideration the establishment of a distribution committee of the Canadian food industry. Such a committee, voluntary in form and made up of representatives of the different segments of the industry from producers to retailers, might well make a significant contribution. It should, in our opinion, work toward greater efficiency, narrower price spreads, lower consumer prices, more orderly marketing for growers and less waste. It should work closely with federal and provincial government agencies but should be set up and maintained by the food industry itself.

We believe that our member-companies could



well be helpful in this connection, as we are sure would be the case with those representing other components of food production, processing and distribution.

All of which is respectfully submitted by the Canadian Retail Federation.

THE CHAIRMAN: Thank you, Mr. Nelson.

COMMISSIONER WALTON: Well, Mr. Chairman, as you are giving me the first chance, may I just turn to your conclusion, Mr. Nelson? Do you think there would be any merit in including the reason for production, processing and distribution component of the food industry in this voluntary organization having any consumer recommendation?

MR. NELSON: I think in considering this idea that our people were not particularly considering any concept of consumer education. I think the consumer, like CAC, could very properly be represented on such a committee. We were thinking of the business people involved.

COMMISSIONER WALTON: The reason I said so was that some briefs have said that within their own distribution, processing, they could do something.

MR. NELSON: I think in the business talks it has been the retailer.

COMMISSIONER MARTIN: On page 8 you say: "We would expect price competition to be permanent." It is at the retail level?

MR. NELSON: Yes.

COMMISSIONER MARTIN: So if price competition



is a permanent factor in establishing the price, and if cost of processing and packaging, and so on, merchandising, is increasing, do you think it might have an effect on the prices of the farmer? Do you think that this will decrease the price at the farm level?

MR. NELSON: No, I shouldn't think so. I think that what we are getting at in this point is that the part of the price spread, which is the retailer contribution, is the difference between the cost and price, the margin, and that there were price consciousness and factors which may tend to make that share of the contribution too wide.

COMMISSIONER MacKICHAN: I am just interested in your brief and the brief we had this morning, both the Retail Merchants' Association and the Canadian Retail Federation. Are they somewhat similar organizations?

MR. NELSON: Well, the Retail Merchants' Association is an independent organization, but they hold a membership in the Canadian Retail Federation. Actually there will be forty members of the Association. They are not subsidiaries of ours; they are independent.

COMMISSIONER MacKICHAN: Is there an overlapping as such?

MR. NELSON: No, not particularly. The membership of the Retail Association is almost completely independent.

COMMISSIONER MacKICHAN: I just wondered if there was an extension of that beneficial aspect that you enjoy?



MR. NELSON: Well, we have nothing to do with them and they have nothing to do with us.

COMMISSIONER KIDD: On page 3 I seem to recognize about fifteen or sixteen different reasons why chains should have advantages, and, as you say, these changes have resulted in all these lower operating costs. Now, have these things you have listed resulted in lower prices or have the changes been used for other purposes such as more expensive form of advertising, including gimmicks, stamps, and so on, or the third explanation of outlets?

MR. NELSON: Well, I think in the first place in this section, as I remember, we were trying to discuss the development of the chain store, and it doesn't necessarily follow that the attributes of the chain store are solely the attributes of the chain store; many of these attributes are attributes of the store merchants. I think that they should have been in the direction of reduction of food costs, retail.

COMMISSIONER KIDD: At the present moment you would not say that food costs in retail have been reduced?

MR. NELSON: Oh, no, they are much higher than they were.

COMMISSIONER KIDD: So are you saying that it is more than offsetting the savings, the result of inflation?

MR. NELSON: I think we are trying to say that had conditions remained as they were before the



introduction of those things, food prices to the consumer would have gone down, because the cost for both retailing and wholesaling would have been lower.

However, conditions didn't remain the same, they went up. So perhaps another way of saying it is that

food prices at retailing would have been higher had these economies not been effected.

COMMISSIONER KIDD: Would you say possibly a greater demand has kept the price from falling?

MR. NELSON: Well, I really can't answer that, except to look at the historical pattern of retail statistics as put up by the Bureau, which do not seem to indicate an enormous increase, although there is an increase.

COMMISSIONER KIDD: Would you have any comment as to the extent that price competition has been replaced by other forms of competition?

MR. NELSON: I can only give a personal opinion there, very much personal opinion, and that is that it has been affected to some extent by non-price competition.

COMMISSIONER KIDD: Is the retailer concerned with the form the competition takes regardless of its effect on price?

MR. NELSON: Is he concerned with the form it takes?

COMMISSIONER KIDD: If he goes into other forms of competition, these other forms have an effect on price?

MR. NELSON: I think merchants are always



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unhappy at almost any form of competition, whether it is price or otherwise. In other words, as a trade association officer, I am always aware whether it is price competition or whether it is gimmicks, or what have you; it does create competitive unhappiness, yes. There are different opinions in retailing as to the merits of what is happening in the food business; some are proponents, some are opponents, and some don't care.



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COMMISSIONER DRUMMOND: Following on this question Mr. Kidd has just raised, what would your opinion be with regard to replacement of price competition? I mean, do you feel that it is becoming more pronounced in recent years, or is there a gradual increase in the tempo of replacement?

MR. NELSON: I am really not sure, Dr. Drummond how much it has increased or whether it is because it has been more concentrated on. As I look back over my own lifetime, I can remember all sorts of peculiar things that used to happen in the wild twenties and things like that. It is an enormously bigger business today. The things certainly demand a lot of attention, and sometimes very unfavourable attention with some firms. Trading stamps, for example, were frightfully upsetting in the trade. Perhaps if the Combines Investigation Act and a lot of the manufacturers got together a little more effectively, perhaps they would not have gone into them. I think a lot of them were sitting in their offices looking around, and thought everyone else was going to do it, and if they didn't, they would be left out. I am really not an expert on these things. I can only give you my company's experience and comments of member companies.

I got the impression that a lot of the larger people perhaps did not attach too much significance to the gimmicks and **that sort of thing**, that perhaps it appeared to be more prominent in



their theme of things than it really was.

COMMISSIONER DRUMMOND: There is a sentence about the middle of page 5 that seems to me rather significant. You state that the degree to which the retailing function could be performed more efficiently is the key to the reduction in food distribution costs. Does that mean in your opinion it is mainly on the retail sector that we must look for any improvements or any narrowing or shall I say it this way; that it is mainly in the retail section that the recent widening has occurred.

MR. NELSON: Well, I can only speak, Dr. Drummond, from what experience I have had in the retail section because I have had none at all in the others, so I cannot comment intelligently, but where there is in fact a tendency in other sectors to widen the spread, obviously in retailing its margin is a total contribution to the spread. I would assume that with a lot of different segments in the industry, if the spread were to be narrowed, it would have to be a teamwork job that everybody would have to do their part, or at least a majority of the various sectors would have to do their part.

I have here somewhere a note on the breakdown margin. I think that the chain stores in 1957 gross margin was 17.44 according to the latest D.B.S. statistics, taking all sorts of problems and considerations. This is 17.44 cents of the consumer's dollar. To the extent that could be reduced, and it has fluctuated up and down over the years in the



last few years, to that extent the price spread could be narrowed, and I think generally that retailers are hopeful that that could be narrowed.

COMMISSIONER DRUMMOND: I have a question relative to your very interesting conclusions.

MR. NELSON: Yes.

COMMISSIONER DRUMMOND: The suggestion of a committee of the various sections of the trade: At different times in the past in this country, there have been committees or organizations established and at the time of their inception they were designed to represent all of the interests which were brought together.

MR. NELSON: Yes.

COMMISSIONER DRUMMOND: And before too long it came to represent the interest of a single one of those interests.

MR. NELSON: Yes.

COMMISSIONER DRUMMOND: In other words, one became the dominant. I am wondering if you have any thought of a method to prevent any such type of development?

MR. NELSON: We have not discussed this in detail. This is more a proposal for exploration than a detailed proposal. I think perhaps partially the key to that might be its government connection. Our people seem to feel rather strongly that they prefer something paid for and run by a business rather than something paid for and run by government. These things do have a habit of ending up just as you



have described, but I would think that active participation of government departments in it, not necessarily in control, but there might be a liaison job, a pricking job to keep people interested.

Now, there is always a tendency of these things, because they do cost money for people to -- when the situation has changed slightly -- begin to cut costs by avoiding this. I think perhaps that might be partially overcome by a close partnership between business and government, and perhaps the consumers may have a role to play in that.

Certainly as far as our people are concerned, we are very much aware of the interest of good relations with the people who buy our goods. I find that when the C.A.C. brings problems to us, we don't always find solutions for them, but we try dog-gone hard. They are our boss. I think perhaps that the addition of the consumer's association and other associations may perhaps have a stimulating effect on it.

COMMISSIONER DRUMMOND: That is all.

THE CHAIRMAN: I take it this suggestion about the distributional committee has been approved by your executive?

MR. NELSON: Yes, it has been.

THE CHAIRMAN: And the contribution --?

MR. NELSON: I cannot speak very effectively on this subject, Mr. Chairman, because I am not really very much of an expert on food matters.

As our committee sat around the table



discussing the developments of this brief, during the ordinary conversation and shop talk that flowed from it, it was obvious that a good many of the senior business executives were quite concerned about the wasteage.

One company mentioned having received several carloads of potatoes in, I think, it was five-pound bags. Something was wrong with them. Whose fault it was, I do not know, but somebody had slipped, and they all had to be undone and wrapped. Then also the question of these temporary surpluses which occurred from time to time.

Another thing about which I know very little is the question of fish, but I think that if I judge the feelings of our people correctly, that they felt that we had a long way to go in good fish distribution, and in increasing the consumption of Canadian fish. This was important to our economy aside from just being nice to have people eat fish. It was important to our economy, and interplay among the various groups mentioned may find ways and means-- For example, I am getting dog-gone good suggestions about retailing from people who are not in retailing. I think there is a tendency for us to draw walls around the sectors of business and the whole business of distribution and production is a one thing. It is not a lot of separate jobs, although we do not sometimes think so.

THE CHAIRMAN: Thank you very much to you and your organization for the preparation and



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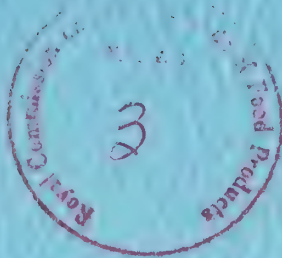
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submission of this brief.

MR. NELSON: Thank you.

THE CHAIRMAN: We will adjourn now until
10 o'clock tomorrow morning, Thursday, November 20th,
1958.

--- The hearing adjourned to resume at 10 a.m.,
Thursday, November 20, 1958.



Henry Walter

ROYAL COMMISSION

ON

PRICE SPREADS OF FOOD PRODUCTS

HEARINGS

HELD AT

OTTAWA

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VOLUME No.:

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ROYAL COMMISSION ON PRICE SPREADS OF FOOD PRODUCTS

Proceedings before the Royal Commission on Price Spreads of Food Products commencing at 10.00 a.m., Wednesday, October 15th, 1958, at Montreal, Quebec.

CHAIRMAN:

Dr. Andrew Stewart

COMMISSIONERS:

Mrs. Dorothy Walton
Mr. J. Howard MacKichan
Mr. Romeo Martin
Mr. W. Malcolm Drummond
Mr. Cleve Kidd
Mr. Bernard Couvrette

Secretary

John A. Dawson

Assistant Secretary

A. A. Caron



Ottawa, Ontario,
Thursday,
November 20, 1958.

---On resuming at 10.00 a.m.

---Mr. Couvrette in the Chair.

Submission of
CLOVER FARM STORES OF CANADA

Appearances:

Mr. Grant A. Mason

President

THE CHAIRMAN: Etant donne que M. Andrew Stewart, le president de la Commission, est appele ailleurs pour des fonctions officielles, j'ai l'honneur de presider la seance d'aujourd'hui.

Due to the fact that Dr. Stewart, the Chairman of the Commission, is somewhere else on official duties, I have the honour to be Chairman for today.

Nous entendrons maintenant le representant de Clover Farm Stores of Canada.

We will now hear the representative of Clover Farm Stores of Canada, Mr. Grant A. Mason.

MR. MASON: My name is Grant Mason and I am connected with Clover Farm Stores Corporation, an American company owned by Wholesale Food Distributors



which was originally developed to combat jointly with independent retailers the inroads of chain competition at a time in the middle 1920's when wholesalers and independent retailers found their profits and sales declining. The operation has proved successful over the years and as a consequence we received an invitation from a group of Canadian wholesale food distributors to develop a similar type of operation in Canada, and accordingly late in 1955 a Canadian company was formed which is Clover Farm Stores of Canada Limited of which I am president.

The company is a service company which enters private service agreements to supply affiliated wholesalers and they in turn supply affiliated retailers with various types of service that enable both the wholesaler and the retailer to increase their efficiency and their sales and to better enable them to compete in that highly competitive field of food distribution.

The services that the company supplies consists generally of the following:

1. Facilities for the selling of the Clover Farm retail stores in the public mind. Such identification enables wholesalers and affiliated retailers to conduct a more efficient advertising programme at much lower cost per store. One method that has been used to generally lower advertising costs has been to supply layouts and matrices which are mass produced at a



substantial saving -- art work, photography and professional layout costs. Further items furnished at low cost are in-store advertising material, window posters and similar media. As a result retail advertising costs can be cut to approximately one per cent of retail sales.

Since it is essential to bring customers into the stores, special weekly programmes or sales are featured and are included in the advertising service provided.

2. Through store engineering services Clover Farm retail stores have been remodelled to provide maximum possible efficiency, attractiveness and customer convenience. Many stores have been enlarged or relocated so as to offer the consumer self-service in groceries and to some extent in produce and meats. In the development of the self-service operation the retailers have been able to substantially reduce the retail selling prices in instances where consumer deliveries and consumer credit have been eliminated.

3. One of the key factors that enables Clover Farm retailers to sell merchandise competitively is the ability of the sponsoring wholesaler to operate efficiently and that in turn to sell to the affiliated retailer at a low markup. Increased efficiency of the wholesaler is attributable in a large measure to the use of a preprinted order form developed and supplied in some instances by the company. In many



cases this form is a combination merchandise order form, packing instruction, warehouse assembly sheet, invoice and delivery ticket. This form, along with other desirable operating practices, fostered by the company from the outset, including the practice of once-a-week deliveries and cash payments, add to the efficiency of the sponsoring wholesaler.

4. Other services provided are designed to assist the retailer in properly setting up his books and in many instances this feature has been developed to a point where his accounting is actually done in the central Clover Farm Supply House.

5. Frequent educational meetings and training schools are held to provide affiliated retailers with pertinent data to cut operating costs and provide yardsticks not only as to expenses but also as to products in the various products' classifications.

6. Affiliated Clover Farm wholesalers and retailers are regularly visited by experienced representatives who bring to both the wholesaler and the retailer the advice and counselling that is important to keep the problems of both in their proper perspective. This representative is capable of dealing with all types of retail and wholesale problems that may arise.

7. A weekly communication is maintained with Clover Farm retail stores by means of operating bulletins and helpful postings from the company and the



retailer. These communications contain up-to-date marketing information, merchandising, price trends and other general and merchandising information.

8. Another service of the company to the Clover Farm wholesaler and retailer is the provision of private label brands for certain types of foods, such as canned fruits, vegetables and juices, bread, coffee, evaporated milk, etc. It has been the company's experience that these private label brands can be sold more cheaply to the consumer without any sacrifice in quality. The company has service agreements which I have referred to with nine affiliated wholesale food distributors strategically located in six provinces to enable them to efficiently serve some three hundred independent affiliated retail stores.

The company's main source of income is derived from modest weekly service fees assessed against the wholesalers, based upon the number of retailers affiliated with him. These fees are considerably lower than the fees which would normally be charged to a wholesaler by a firm of business consultants.

The chief concern of this Commission is the increase in the spread of recent years. Unfortunately, owing to the fact the company is fairly new in Canada, having been in operation less than three years, we are not in a position to be of much assistance to you from the Canadian point of view. However, we do have some information on the American



experience with price spreads which, if it might be helpful to you, we would like to provide.

THE CHAIRMAN: Is it in writing?

MR. MASON: It would take about the same amount of time as I have just consumed. I will read it.

THE CHAIRMAN: Very well.

MR. MASON: The information we are giving to you at this time is being read as an excerpt from a periodical compiled by the Grocery Manufacturers of America, in 1957. We believe the information is substantially unchanged at the present time and to the best of our information a comparable situation exists in Canada. I am now quoting from the pamphlet:

"What is Price Spread? It is the difference in price between what the farmer receives for his raw product and the price paid by the consumer at the grocery store. Price spread is payment for a number of essential processes and services necessary to bring food from the farm to the consumer, including research, manufacturing, transportation, wholesaling and retailing.

"These processes and services, paid for by spread, add real value to the product at every step along the way by providing the homemaker with food in the form she wants it, when she wants it and where she wants it. A



familiar example of spread would be the difference in price of what the farmer gets for his wheat and the prices you pay at the supermarket for flour or baking mixes, or cereals or bread. Wheat stored on a farm has no value to the farmer nor to the consumer. If it were not for the functions paid for by spread, you would have to travel to the farm to get the wheat, and do your own milling job and make your own breakfast cereal.

"In Early America there wasn't any such thing as price spread. The pioneer had no choice but to grind his own wheat and slaughter his own livestock. Food prices, and the services necessary to move his product to his customers, were no problem because he didn't have any customers. He ate what he grew.

"But America developed and it wasn't long before the pioneer became a different kind of farmer. Instead of consuming all that he produced, he sold some of it to nearby processors and local stores where it was bought by non-farmer consumers. Spread began the moment that the first somebody 'in between' started to provide services to move food from farm to table.

The Twentieth Century: Nowadays farming has largely become a mechanized and scientific operation. Now, because of the services paid for by spread we have a myriad of convenient, tasty,



nutritious and satisfying foods -- available the year around. The modern supermarket offers, for example, about 7,000 items; 85 per cent of them processed and prepackaged.

"The time spent by the homemaker in meal preparation is far less than it used to be. A few years ago it took five and one-half hours a day to prepare meals for a family of four. Today, by using modern convenience foods, comparable menus can be prepared in only one and one-half hours, a saving of four hours.

Twenty-five years ago one farm worker produced enough raw food to supply ten other people. Today he produces enough for twenty other people. He is able to do that because of his mechanized operation and because spread enables him to turn over other operations such as transportation, processing and selling to specialists, who are organized and equipped to do the job far better than he.

Aided by the functions paid for by spread, the total food industry has had a phenomenal growth. This growth has been stimulated by many things, importantly research for new products, better advertising, better packaging; the attractive, self-service stores with their great variety of products and freedom of choice in consumer purchasing; the consumer's greater



knowledge of nutrition, her recognition of the value of eating balanced meals, and her appreciation of the 'built-in kitchen services' in modern, convenient, ready-to-serve foods.

"Without research we would not be enjoying frozen citrus juices, for example, or frozen fish or vegetables the year around, or baking mixes or the many new dietetic foods. Grocery manufacturers spend more than \$100 million a year on research to develop new and improved products.

Just as research produces new products, advertising has made its contribution. It has introduced products to American homemakers and has increased sales, thus enabling factories to operate at full capacity and more economically.

On an overall basis we are eating far better than we did in 1939. During that year Americans spent about 23 per cent of their after-tax income for food; today we could buy that identical food for only 16 per cent of our after-tax income, but actually we are spending about 25 per cent, about the same percentage of income as in 1939 and we have greatly improved our eating in terms of quality, variety, tastiness and the many time-saving conveniences.

Modern convenience grocery products transfer much of the work of meal preparation from your kitchen to the manufacturer's plant. With modern



foods, fewer utensils are required; fewer waste materials have to be thrown away. Packages keep the food fresher and are convenient for storage on the kitchen shelves. Modern processed foods capture nutritive values at the peak of freshness and flavour. Many are additionally fortified with vitamins that are necessary for good health; bread, cereals, margarine and milk being a few.

Not only does the homemaker save four hours a day in kitchen time, as stated, but she also saves money with convenience foods as it applies to shelling peas, squeezing oranges, etc.

"In 1946 consumers paid \$767 for the basket. In 1957 they paid \$1010 -- an increase of \$243. In 1946 farmers received \$397 for the raw farm products entering the market basket. In 1957 they received \$400 -- an increase of \$3.

The price spread rose from \$370 in 1946 to \$610 in 1957, an increase of \$240.

"The table shows how the costs which make up the spread increase between 1946 and 1957; higher labour costs -- up \$130; higher transportation cost -- up \$33; higher federal taxes on food processors' and distributors' profits -- up \$4; other higher business expenses -- up \$69. That makes a total of \$236. Net profits of food processors and distributors declined \$9, leaving a combined net increase in actual spread of \$227.



On top of this, the removal of wartime food price control subsidies necessitated an additional \$13 widening in the spread to cover costs which in 1946 were subsidized by the government. This brought the total spread increase as shown in the government's 'market basket' report to \$240.

These figures clearly indicate that three major factors -- the higher cost of labour, taxes and transportation -- directly account for about 75 per cent of the postwar increase in spread. (Transportation costs are up largely as the result of rising labour and tax expenses of the carriers.)

Far from adding to the cost of spread, the declining rate of food industry profits has partially cushioned the impact of higher costs. On a combined basis, average net profits of food manufacturers and distributors are now at a rate of about 3 cents of the consumer's food dollar -- half the prewar 1939 rate of around 6 cents.

To Sum it Up: Research plus Manufacturing plus Transportation plus Wholesalers plus Retailing equals Spread.

"Spread is a payment for a series of values added by processing, packaging and distributing.

Without spread, our steak would be standing in an Iowa feed lot, our cranberry sauce would be in a bog on Cape Cod, and our citrus juice would be on trees in Florida or California.



Spread helps to build markets for farm products and provides valuable services to consumers. It is a positive, value-adding, market-creating force from which all Americans benefit and it helps make our country the best fed nation in the world.

"Grocery Manufacturers of America, Inc., founded in 1908, is an organization of about 300 of the nation's leading manufacturers of advertised food and grocery products.

THE CHAIRMAN: I was just wondering whether that could be filed as an exhibit.

MR. MASON: It is the only one I have.

THE CHAIRMAN: It seems that somewhere in these hearings this has been filed as an exhibit.

MR. MASON: Well, I do not have the records, I do not know, but I am glad the Commission has had the opportunity to examine it. That completes it.

THE CHAIRMAN: Now, I understand Clover Farms Incorporated are going to send, within the next few days, the answers to the questionnaire that was received?

MR. MASON: We are going to send as much information as we can, but there is some information the Commission has asked for that it is impossible for us to get.

THE CHAIRMAN: You have only been here three years?



MR. MASON: Yes, not only that, but one of the questions asked, Mr. Chairman, was the sales of the various stores, the various retail stores, and we do not have that information.

THE CHAIRMAN: Well, whatever information we can get from the questionnaire we would appreciate.

MR. MASON: We are going to send everything we have to you.

THE CHAIRMAN: As soon as possible?

MR. MASON: Yes.

THE CHAIRMAN: The date was set as November 14th, and most of these are in.

MR. MASON: We are a small staff; we are not a large company.

THE CHAIRMAN: I think some of the Commissioners have some questions.



COMMISSIONER WALTON: I just have one question. Do you sell to other wholesalers and independent retailers other than those you mentioned?

MR. MASON: You mean our services?

COMMISSIONER WALTON: Yes.

MR. MASON: We don't sell our services to any others except affiliated wholesalers and retailers. The only thing we sell is our services.

COMMISSIONER WALTON: They must be affiliated.

MR. MASON: That is right.

COMMISSIONER DRUMMOND: I have just one question. Among the services which you supply to the wholesalers and retailers affiliated with you, I presume they are services which the corporate chains supply to others?

MR. MASON: Yes sir, it is. We are trying to do as good a job as the chain stores are. We are trying to bring to the independent retailer and independent wholesaler services that will enable them to do a competitive job with the corporate chain.

COMMISSIONER DRUMMOND: Your company, the wholesalers affiliated with you, the retailers affiliated with you, are all separate on their own?

MR. MASON: That is correct.

COMMISSIONER DRUMMOND: This requires a degree of integrated understanding.

MR. MASON: That is correct.

COMMISSIONER DRUMMOND: Do you feel the problems involved in securing that integration constitutes

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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a serious handicap?

MR. MASON: That is a good question. My answer to that would be this: If it were an easy problem, I don't think we would have been called upon. I think it requires experience and understanding and a knowledge of the various problems of both the independent retailer and his sponsoring wholesaler for us to be able to combat that problem. My feeling is that sometimes in businesses people get so close to the forest they can't see the trees, and do not see the opportunity that lies within an integrated co-operative understanding, let me call it.

COMMISSIONER DRUMMOND: What I am trying to get at is, as you have just explained, your whole integrated set-up is a sort of self-defence mechanism to compete against or with the corporate chains. Is that correct?

MR. MASON: Well, I would say, sir, -- let me say it is a realization of an opportunity rather than a defence. I think that necessities sometimes are the mother of invention, and I think that is what this is. If people are going to survive in a highly competitive field, I think they are going to have to learn to work together.

I think they all realize there is a great opportunity for them in integrating their thinking and working.

COMMISSIONER DRUMMOND: What I am really thinking of is this: You have to compete against the corporate chains. You may have some disadvantages



when compared with them. On the other hand you may have some advantages when compared with them?

MR. MASON: Very true. The personality of the individual enters into it to a great extent, we believe, because we have that warmth and interest that the independent retailer takes in his customers that is something that you cannot buy with stocks or bonds and things like that.

COMMISSIONER DRUMMOND: On balance, is it your feeling that you are in just as strong a competitive position as the corporate chains?

MR. MASON: I would say we are approaching it.

COMMISSIONER DRUMMOND: You think that would be reasonably true of the larger voluntary chains generally?

MR. MASON: I would say so, yes, sir.

COMMISSIONER DRUMMOND: That is all.

COMMISSIONER KIDD: In your programme or your services have you made use of trading stamps?

MR. MASON: Some of our divisions did.

COMMISSIONER KIDD: Which divisions did?

MR. MASON: This division that is located in Ottawa.

COMMISSIONER KIDD: Nowhere else?

MR. MASON: Not in Canada, no, sir.

THE CHAIRMAN: Well, Mr. Mason, I suppose there are a lot more interesting questions that could



be asked of you concerning Clover Farms system, but you must realize that we have heard most of the points covered that are of interest to this Commission, and furthermore, we have no right hand at present and it does not make it any easier to ask questions under the circumstances.

I thank you for your presence here this morning and your representations. I presume if we require any further information from you you will be able to get it?

MR. MASON: I would like to thank you, Mr. Chairman and other members of the Commission. It is a real pleasure to have the opportunity to see you and appear before you. I want to assure you of our sincere desire to be of assistance any way we possibly can and if you have any further information you would like or you would like to have me come back at any other time, I would be very glad to do so. It has been a real pleasure to have this opportunity to be here.

THE CHAIRMAN: Thank you.



Submission of
KRAFT FOODS LIMITED

Appearances:

Mr. C. N. Ward	Vice-President
Mr. W. G. Leece	Vice-President and General Manager
Mr. F. E. Wright	Vice-President and Procurement Manager
Mr. R. G. Grimes	Manager of General Accounting.
Mr. P. J. Katien	Vice-President and Production Manager

THE CHAIRMAN: We will now hear the brief
of Kraft Foods Limited.

--EXHIBIT NO. 87: Submission of Kraft Foods Limited.

MR. WARD: I will read the brief, Mr. Chairman.

First of all let us say the Kraft organization
is happy to cooperate with the Commission in any way to
expedite its work and we are pleased to be part of
your hearings today.

No one will argue the fact that the conditions
you are studying do exist, but it seems to us that they
have been brought about by an ever-changing economy
where high purchasing power has brought with it a de-
sire for new, better and more convenient forms of pro-
ducts and services.

Going back thirty years, when a young man



started to shave, he could get a good model of a well known safety razor free with a tube of shaving cream. Today's young man must pay \$1.29 for a similar razor but most would scorn the old fashioned brush and buy shaving cream in an aerosol bomb, which greatly increases the cost per shave. Going a step further, some young men avoid the old fashioned methods completely, and make an investment of anywhere from \$18 to \$32 for a modern electric razor.

Thirty years ago also, the late Henry Ford was selling an automobile for less than \$1,000. To-days' counterpart of that automobile sells for three times that amount or more. To compare the value, the comfort, the convenience of the car of three decades ago with that which sells for three times the price today is like comparing chalk and cheese.

Going back to the same time, a woman bought a 29-cent broom to clean house. Today she buys a \$100 vacuum cleaner of the latest swivel type with all attachments, guaranteed to clean the house from end to end with the minimum of effort.

All these changes have meant increased costs in their own spheres but because the Canadian and American people have continuously demanded a better standard of living, salaries and wages have had to keep pace with the conveniences that have been made available in a modern world.

The very same thing is true of the cheese



industry. Back at the turn of the century a young man from Fort Erie, Ontario, left Canada to enter the cheese business in Chicago, Illinois. If one man's name has become synonymous with a product in our lifetime it is that of Mr. J. L. Kraft. When he started there was one way to buy cheese and that was from a large portion, sometimes as much as a whole cheddar, cut as the customer required at the time of purchase. If the housewife was lucky and shopped in one of the better stores of the time, the cheese might be protected by a glass bell. Those less fortunate purchased their cheese after it had been sampled by innumerable flies and other insects that were part and parcel of the grocery business in those days.

When Mr. Kraft started business he was a cheese wholesaler. He would go to a market in Chicago and attempt to buy the best possible cheese in keeping with his customers' needs and resell it to those customers from a horse drawn wagon.

Mr. Kraft found it extremely difficult to buy cheese of uniform quality, texture and taste. Each vat of cheese appeared to have its own distinctive characteristics. He began to think about a way to produce a cheese always uniform in flavour, without waste and packaged conveniently. Those thoughts gave birth to process cheese initially known as Kraft Cheese.



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During World War I the Kraft Company produced large quantities of processed cheese in tins for the U. S. Army and it was found on grocers' shelves in the United States and to a lesser extent in Canada.

The next step in the evolution was the production of the famous Kraft 5-pound box. As the years went by the wooden box in which this product was packed became almost as popular as the cheese itself because it provided such a handy receptacle in house or workshop for holding nails, small tools, gadgets, etc.

Shortly after the introduction of the Kraft 5-pound loaf Mr. Kraft and his brothers entered the Canadian market, purchasing the assets of MacLaren's Imperial Cheese Company and forming what was then the Kraft-MacLaren Cheese Company Limited. Shortly after that time Kraft cheese made its appearance in 1-pound and 1/2-pound packages, responding to the demands of consumers for more convenient package sizes.

In 1923 Kraft recognized another demand by the consumer, that for a soft spreading type of cheese, and Velveeta was added to the line.

Following Velveeta, Cream Cheese, both plain and with added condiments in convenient packages, later in 'swankyswig' glasses, appeared in grocery store refrigerators.

Through the depression, there was little change in the cheese business. During the war years



there was even contraction of brands and varieties because cheese from Canada was being requisitioned for the war effort.

Following the war, with cheese in full supply, it became apparent that the process cheese business needed new impetus. The public was looking for something beyond the ordinary half pound, one pound and two pound packages, and the old five pound box which had been steadily declining in popularity. At this time cheese in slices was introduced. Here was an entirely new concept of process cheese, quality combined with convenience never before known in these products. It met with immediate acceptance from the consuming public, and since its inception sales have continued to increase year after year. The popularity of slices caused further decline in the sales of the five pound box and reduced considerably the sales of 1/2 pound, one pound and two pound packages, particularly the two former.

In the middle 1950's Kraft entered the market with a new jar type cheese with a distinctive flavour carrying the brand name of Cheez Whiz. Here again an instant success was scored. This was a product that served a new purpose and did not interfere with the sale of slices or the other older varieties to any appreciable extent.

And so it goes. Our research laboratories continue to search for new and better ways of serving



the consuming public.

The only point in telling this story at such great length is to indicate that continuously since 1921, when Kraft entered the cheese business in Canada, the public has demanded and has received new, more convenient and more attractive forms of product and package.

At the same time Kraft has spent large sums of money in advertising and promotional activities, much of which was directed at educating the public in the economic and nutritional values of dairy products, with particular emphasis on cheese.

The success of these efforts is shown by the fact that per capita consumption of cheese in that time has more than tripled.

There is today a surplus of cheese in Canada. This surplus and the lack of an export market has made it necessary for the Marketing Boards, as well as the Federal and Provincial Governments, to take steps to support prices. There are surpluses despite the fact that our population has increased and our per capita consumption of cheese has more than tripled, which leads to a thought we would like to leave with the Commission: "What would the surplus have amounted to and what would be the conditions facing the dairy farmer if Mr. Kraft had not decided to enter the Canadian field in 1921, and if nobody had given real leadership to the job of merchandising and marketing cheese in all its sizes and varieties, such as you



find in the dairy case of a modern supermarket today?"

Mrs. Walton and gentlemen, the public demanded changes in razors, in automobiles, in cleaning equipment. It also demanded changes in handling food products. We in the cheese industry have tried to meet that demand for change and modernization, but cheese in 1/2 pound prepackaged slices cannot be sold for the same price as bulk cheddar cheese.

As late as September 27, 1958, the publication "Business Week" in the section "Business Outlook" had this to say:

"Consumers are running costs up on themselves, as all grocers know. They demand more processing and packaging -- and they have to pay for it.

"We eat the same amount of potatoes, per capita, as 20 years ago. But now 20 per cent of our spuds are processed -- chips, frozen french fries, dehydrated, canned -- against only 2 per cent in 1940.

"Per capita consumption of commercial vegetables is up sharply -- but the whole increase is being eaten in processed form. Canned tomatoes and tomato products and frozen peas show the really big gains."

Despite all this we were happy to find that the Economic Annalist in August 1958 showed that process cheese is now returning to the farmer 36.5 per



cent of the retail price compared to 35 per cent in 1949. During the years 1952 to 1955 inclusive this figure was much lower, but in 1956 it climbed to 37 per cent. Out of a list of 14 common items only 4 are showing a greater percentage of return to the farmer in 1957 than they did in 1949.

THE CHAIRMAN: Thank you, Mr. Ward. I presume that your company has already sent answers to the questionnaire?

MR. WARD: We have done so to the best of our ability. We submitted it about a month ago.

THE CHAIRMAN: Are you ready to proceed with the questioning now?

MR. WARD: The rest of our gentlemen have not arrived. Mr. Leece is here, but I will carry on.

THE CHAIRMAN: As I mentioned, it is your privilege to wait.

MR. WARD: No. Should there be some question -- I have been with the company thirty-two years and I have a pretty broad knowledge of its policies -- but should there be some question I should like to defer until our procurements or production man comes along, I will ask your indulgence.

COMMISSIONER MARTIN: May I ask this question: why don't we see as much good old Cheddar cheese as other forms?

MR. WARD: I am glad you asked that question. Kraft, in the past four years, has introduced good old



Cheddar cheese under the Cracker Barrel label. We also have medium cheese for those who do not like it quite so sharp, and we have mild cheese for those who like it really new. We have this year introduced a very old sharp cheese in a special red label that you cannot miss in the dairy case. I don't think you could sell old cheese today the way it was sold in 1903 when Mr. Kraft went into the cheese business. Feeling there was a lot of people like yourself who wanted to get a good piece of old Cheddar cheese, we went to work and figured out a way of putting it into the package and delivering it to the independent and chain stores all over the country.

COMMISSIONER WALTON: On page 5 you mention that the per capita consumption of cheese in this period has more than tripled: you mean processed and Cheddar forms?

MR. WARD: I mean all cheese. That is from my memory; the official figures go back to 1926, but I came to the company in 1927, and at that time we were making a great to-do about how little cheese Canadians were eating. If I remember correctly, at that time the Swiss people ate 32 pounds, and the English people 16 pounds per capita, which has dropped since because of the dollar situation, and the United States 506 pounds per capita, and Canada, despite the efforts of Kraft over those years, had only raised the per capita consumption from less than two pounds to somewhere near



three. The official figures show that since 1926 it has gone up from 2. something to 6.6 in 1957.

COMMISSIONER WALTON: Do you think the promotional work of your company and other cheese people, where it was not done before, for local consumption, has spurred -- I mean advertising and more attractive packaging -- all these factors have been responsible for this increase in consumption?

MR. WARD: I think it has had an awful lot to do with it. If you notice our television commercials, sometimes we get more compliments on our commercials than we do on our programme. Television commercials are designed to give the housewife ideas for serving meals. The average housewife has to prepare 365 times 3 meals, and women welcome these ideas that come out in the programmes and in magazines. The proof of that is that every Wednesday night we flash that we will provide free recipes to anybody who writes in, and we get literally thousands of requests. We call our commercials 'How to do it' commercials.

COMMISSIONER WALTON: Do you anticipate the per capita consumption in Canada can be increased, but it needs promotion?

MR. WARD: I do. I can't see why it didn't continue to grow. I don't know if it will increase at the rate it has increased in the last thirty years.

COMMISSIONER WALTON: But you do attribute



cheese has been packaged more attractively as the biggest factor, rather than a change in quality?

MR. WARD: I don't think Mrs. Housewife would buy cheese by old-fashioned methods. That goes for a lot of things, but it is particularly true of cheese, because cheese, unless it is properly packaged and wrapped, gets very unsightly. Just leave a piece of cheese out on your kitchen table and see how unsightly it gets in twenty-four hours. The old-time grocer was faced with the problem of cheese having been left for, say, twenty-four hours, and he had to cut some off. Today's housewife just wouldn't buy cheese in that form.

COMMISSIONER MacKICHAN: You mention that there was a return of 36.5 per cent of the consumer's dollar ---

MR. WARD: Those are not my figures. Those are from the Economic Annalist.

COMMISSIONER MacKICHAN: You quoted them.

MR. WARD: Yes.

COMMISSIONER MacKICHAN: Would you have any information as to why cheese is the lowest of all food items except flour and bread and canned goods -- that is, the lowest in the whole 60 and 14 items?

MR. WARD: Cheese is the lowest?

COMMISSIONER MacKICHAN: Yes, except canned fruits and vegetables?

MR. WARD: I would not know.



COMMISSIONER MacKICHAN: Would the small package of 11-9/16ths ounces, or something -- the small individual package -- would that have something to do with it?

MR. WARD: There are no packages of that size.

COMMISSIONER MacKICHAN: Well, I am just pulling that out of the air.

MR. WARD: All processed cheese in Canada must be sold in multiples of four ounces by law. There is no question that with cheese, processing and packing, adds to the cost, but if the public didn't want it that way they wouldn't buy it, but the fact that they have bought it in such large quantities indicates that is what they want. If they want it in some other form, some of our competitors will come out with it in another form and do the job for us.



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COMMISSIONER MacKICHAN: Would the large sums of money spent in advertising and promotion have something to do with it?

MR. WARD: That would be an infinitesimal part of the cost.

COMMISSIONER MacKICHAN: Possibly that word "large" there threw me off; it might not be.

MR. WARD: I don't wish to disclose our figures, but if you took our tonnage you see how small it is. If you wipe out all advertising, it wouldn't make much difference in the price of cheese. I think, like all national manufacturers, our national advertising increases volume, and consequently it holds the price line, does not increase it.

COMMISSIONER WALTON: Have you ever exported much of your Kraft cheese? Do you have an export market?

MR. WARD: All over the world. Kraft came to Canada in 1921, and then Kraft did ship to England and Germany and many other places, and when the English company was formed, it reverted to the parent company. We were in Germany, Australia, Switzerland, and now we are in South Africa. We are not in a position to export now as conveniently as we did many years ago.

COMMISSIONER WALTON: Have you any opinion on the fact that you can't export or couldn't have the markets that you did have for cheese? Why has cheese production in the last few years -- why have you accumulated



surpluses?

MR. WARD: We have accumulated surpluses to support prices and make it profitable for a cheese factory to produce cheese, and people who buy cheese don't have dollars to spend on our accumulated surplus. The Government completed a deal with England at 30 cents, and the taxpayer has to pay the difference for what they get that cheese at and what they pay for it.

COMMISSIONER WALTON: I would assume the very efficient cheese producers make more on this sort of deal. I mean, the price support is set at a level ---

MR. WARD: I am not hearing you.

COMMISSIONER WALTON: With a surplus or with a price support, this must be a benefit to an efficient cheese producer, more perhaps than marginal or smaller ones?

MR. WARD: Do you mean the one who makes Canadian Cheddar cheese? The benefit goes to the man, if any, who makes cheese, processed cheese or other forms. Now, the one who benefits from this is the man in the cheese plant, and the farmer, really, because the man gets the fixed price, 34 cents, 35 cents, and that gives a greater return to the farmer and the man with the cheese plant.

COMMISSIONER WALTON: There is no indirect benefit to process cheese?

MR. WARD: No, it doesn't affect us one way or another, because we have to get it back in our process



cheese, and the public pays for them the same way they pay for these surpluses to **England**; they pay to support the cheese market.

COMMISSIONER DRUMMOND: You referred, Mr. Ward, to the fact that ---

MR. WARD: Would you excuse me? This is Mr. P. J. Katien, the Vice-President in charge of Production of the Kraft Company of Canada, and Mr. F. E. Wright, the Vice-President in charge of Procurement.

THE CHAIRMAN: Gentlemen, you may think it strange we started ahead of time. We are closing tomorrow, and this is the first time it has happened so far. We have just heard the reading of the brief and a few questions, and there is still time for you to give any opinions you want on the subject of cheese.

COMMISSIONER DRUMMOND: You have referred, Mr. Ward, to the fact that the consumption of cheese has increased quite considerably in recent years, and you lead us to believe -- at least you suggest -- that advertising and promotion, together with the new forms in which cheese is actually presented, sliced form or some other, is responsible for this increase.

First, I assume you are aware that advertising of cheese has been undertaken by governments and also by the dairy farmers of Canada, their organization, as well as by private processors?

MR. WARD: I am aware of that, yes, sir.

COMMISSIONER DRUMMOND: And therefore, since



that has happened, that any increase in consumption resulting from advertising is at least partly due to their type of advertising. Is that true?

MR. WARD: Have you ever been exposed to the ins and outs of advertising the way we have been in the Kraft business? I will answer it with a question. Do you suggest that those ads that the Government puts in the papers get leadership from the types we put in our magazines or the commercials? Would you buy anything from these ads? If they were cuff links would you buy them from these ads?

COMMISSIONER DRUMMOND: I don't read them. I don't buy because of an ad.

MR. WARD: I say the same thing.

COMMISSIONER DRUMMOND: Apart from this, do you think there are other factors, apart from those that we have just mentioned, that is advertising, promotion, presentation in these various forms, that have accounted for this recent increase in per capita consumption of cheese?

MR. WARD: Yes. Cheese has always been an economical food, high nutritional value, and I think the people, maybe because some of them have had to stretch food budgets, found that out; we have stressed the nutritional and economic value of cheese, and they have found it is true. A dish of macaroni and cheese, for example, makes you a very substantial meal; and, as a matter of fact, we have put out a package already,



so they don't have to go to that trouble.

COMMISSIONER DRUMMOND: We have been told that in the last decade or thereabouts Canada has had a very pronounced increase in population, a very significant part of which has been through immigration.

MR. WARD: That is right.

COMMISSIONER DRUMMOND: Probably also you will agree that a great many of those immigrants have come from many parts of Europe where the per capita consumption of cheese is very high?

MR. WARD: That is right. That has aided in the consumption of cheese; there is no doubt about it.

COMMISSIONER DRUMMOND: You, I think, have alluded slightly already to the fact that the taste for cheese varies pronounceably?

MR. WARD: Oh, very much so.

COMMISSIONER DRUMMOND: You have old, medium, fresh, all types of variations between?

MR. WARD: That pretty well covers the field -- new, medium and old, and we have very old cheese, specially selected cheese.

COMMISSIONER DRUMMOND: Why do you think it is necessary to have such a wide variation of maturity?

MR. WARD: Well, the people who eat a mild cheese -- let us take the people in Quebec: a lot of them wouldn't eat strong cheese. I, for example, like a cheese with a bite; many men do. The success of process cheese was because it appealed to women who



like mild cheese. So, like in other things, to be successful you have to cater to that taste. You wear a blue suit, you like a blue suit, but if the man made all blue suits and I wanted a gray one, he wouldn't do much business.

COMMISSIONER DRUMMOND: Why didn't you educate people to take either fresh cheese, old cheese or medium cheese and let it go at that?

MR. WARD: I would say that is beyond the power of advertising, sir.

COMMISSIONER DRUMMOND: Well, in the case of butter, people are willing to take relatively fresh butter and butter that has a certain percentage of salt?

MR. WARD: Yes.

COMMISSIONER DRUMMOND: You only have a couple of variations there. Why this tremendous difference in the case of cheese?

MR. WARD: Butter is -- I am not in the butter business; I am talking as a consumer -- butter is used as a spread for bread, it is used in cooking, and while there is some small variation in taste, some people like it salted and others don't, there is not the same thing you have in the tremendous varieties in cheese. We even go so far as to export cheeses you have never heard of, because now perhaps some of these immigrants you are talking about have a taste for that. We are leaders in the cheese field and we endeavour to give service and that type of thing. The variations in



cheese is tremendous. I don't think there is any comparison with butter.

COMMISSIONER DRUMMOND: I know there isn't at the moment, but I am wondering why there couldn't be?

MR. WARD: Mr. Wright is an expert on the matter. Do you think we could educate them to one type of cheese?

MR. WRIGHT: Dr. Drummond, judging by conditions not only in Canada but all over the world, people have their particular preferences, and one caters to that preference, whatever it may be. I think that is about the only way I could express it.

MR. WARD: Nobody around a group table at a banquet or anything like that ever discusses butter and its various forms, but as soon as one discovers that there is someone from a cheese company there, they say, 'Do you have this cheese? Why can't I have a piece of old Cheddar cheese?'

COMMISSIONER DRUMMOND: The thing is, if you could reduce the numbers, it seems to me it might have some effect, maybe not a large effect, but some effect?

MR. WARD: I am afraid, Dr. Drummond, that is a Utopian dream.

COMMISSIONER DRUMMOND: It is nice to dream. I think you referred a few minutes ago to your belief that there were almost unlimited possibilities of raising the consumption of cheese?

MR. WARD: I didn't use the word "unlimited".



I said that I thought there were possibilities in the raising of per capita consumption of cheese, and I think we will. I will qualify it by saying that I don't think the increases will be the same as in the years gone by. I think the Gordon Commission brought out that although there would be an increase in the consumption of dairy products generally, there would be an increase in the consumption of cheese, towards which we are going to work.

COMMISSIONER DRUMMOND: And that trend, of course, is going on. My only point is this, that cheese is a highly protein food, and it has to compete with other protein foods -- eggs, and so on -- both of which have very high per capita consumption rates in this country?

MR. WARD: Yes.



COMMISSIONER DRUMMOND: It seems to me you may have difficulty in getting very far in expanding still further your per capita consumption of any one of these things. There are several competing for it.

MR. WARD: That is the reason we say we will not see the type of growth we have seen. In Canada the consumption of cheese is far too small and it was never noticed at that time because we had a very fine export business to Great Britain, but when that fell away after the war when Britain could not afford to buy the Canadian cheese, though they still wanted it, then that problem became evident.

COMMISSIONER KIDD: Mr. Ward, there is a theme running through your submission here which has been apparent in a number of others and it is simply this, that although the demand for food is fairly constant, food of all kinds, the demand has been increasing over the past few years, still it seems that each product has a period of support from the consumer and then this support declines. Then a new form of promotion or advertising comes along and the same product is re-packaged or done up in some different way and the demand picks up again and then it falls off again.

Now, the questions are these: if advertising and promotion were to be dropped entirely, and this might be a different kind of Utopia, do you think it would have any effect on the total amount of food in general, or cheese in particular, in so far as consumption is



concerned?

MR. WARD: Well, from my thirty-two years' experience in our national advertising I would say yes, it would have an immediate effect upon the consumption of food products.

COMMISSIONER KIDD: On consumption of all food products?

MR. WARD: All except the basic essentials. Did you ever see the figures on impulse buying in the supermarkets?

COMMISSIONER KIDD: That is the very point, of course.

MR. WARD: That is brought about in part by advertising. I do not know how you feel about it, but I love those advertisements. I turn the pages over and I read them all the time. I read more ads than I read articles in the paper, and, by jingo, I would not want to see a world without advertising.

COMMISSIONER KIDD: Well, some are interesting and some are amusing but to a great extent I agree with Dr. Drummond, I suppose, but do you think the total demand for food then would drop if advertising was done away with?

MR. WARD: It is only my personal opinion, but I think it is shared by the people in my company. I think the demand for food generally would drop and for cheese, yes, I do not think there is any question about it.



COMMISSIONER KIDD: Do you think the people would consume less unless advertising were constantly beamed on them?

MR. WARD: I do.

COMMISSIONER KIDD: You do not think possibly people would consume just as much but perhaps in different forms?

MR. WARD: We can prove it in figures. Let me give you a concrete example. In 1928, Kraft took over the Phoenix Cheese Company in the United States and Canada. You probably do not remember this brand at all, but in the United States at that time one big item in food was Philadelphia Cream Cheese, which had been a highly successful product in the United States. When Kraft took over in 1928, when we went into the radio business in a big way with Al Jolson, the White-man Show and then the Bing Crosby Show, the advertising people said, 'Why don't we advertise Philadelphia Cream Cheese?' Our people in Chicago said, 'No, we have to spend money on processed cheese and Miracle Whip; we cannot spend it on Philadelphia Cream Cheese; it is already at saturation point. People have known it for fifty years.' They said, 'Let us try it for six weeks.' They tried it and increased the consumption of Philadelphia Cream Cheese by 56 per cent on a product they thought had reached the saturation point and thereby learned a lesson.

COMMISSIONER KIDD: You do not think it removed



the market for some other food product?

MR. WARD: No.

COMMISSIONER KIDD: You do not believe that the human stomach is inelastic?

MR. WARD: I do not think anybody who bought another cheese went back to Philadelphia Cream Cheese.

COMMISSIONER KIDD: Your point is quite correct, but I am saying was not the result of the increase in sales of that particular product a decline in the sales of some other food product?

MR. WARD: No, I do not think so; I think it means that people eat better, that there is more variety for their meals. Shopping and eating has become a real adventure. When I was a kid eating was just eating. We ate meat and potatoes and things like Philadelphia Cream Cheese were a treat. Well, to my children that is no longer a treat, it is part of their day-by-day diet. If we look at the young football players here in Ottawa and see the size of them compared to when we were young you will say that perhaps it has done something for them. I do not think there is any question that advertising has played its part in seeing they are better fed.

COMMISSIONER KIDD: I have read some stories that North Americans may be consuming too much food and dying too early.

MR. WARD: That is possible but perhaps we should try to hold the line.



COMMISSIONER KIDD: Just one other question: what about the practice of selling cheese under various brand names which were formerly associated with, let us say, different companies, different countries, or what not, such as Canadian-made roquefort cheese or came mbert?

MR. WARD: Well, you used a bad example, roquefort cannot be made in Canada; it can only be made in France, but you can make a blue cheese in Canada. The monks in Quebec have been doing it for many years.

COMMISSIONER MARTIN: Benedictine.

MR. WARD: A very good cheese, not roquefort, but a good blue cheese. Swiss cheese is good. We cannot call it Switzerland cheese because it is registered.

COMMISSIONER KIDD: I was wondering if this created any confusion in the minds of the person who is purchasing the product?

MR. WARD: Well, if you purchase a product that is satisfactory, do you really care? If we can duplicate a product from Switzerland here in Canada do you really care, if it satisfies your taste? The Swiss people, that is why they stick to the name of Switzerland.

COMMISSIONER KIDD: I was only interested in the possibility of confusing the consumer through advertising a brand name.

MR. WARD: Well, in the case of Swiss we call that natural Swiss cheese. We sell it in



slices and packages ready for sandwiches.

COMMISSIONER MacKICHAN: I am not trying to dig into the trade secrets of your company's techniques, but I think it would be helpful if you could give us a description of what is involved in process cheese.

MR. WARD: In making it?

COMMISSIONER MacKICHAN: Yes.

MR. WARD: We do not mind at all telling you that anybody can make process cheese.

COMMISSIONER MacKICHAN: I am sorry I do not know how because I am a fisherman.

MR. WARD: We have a natural Canadian Cheddar cheese and if you do not particularly care what flavour, sometimes you get some of the cheaper lines around or whatever is available, put it in a kettle, add some emulsifiers and pour it into the packages. We like to think we select our cheeses in season and there are various flavours. We slide the cheese into pans, that cheese is then ground up and pasteurized, cooked, and certain emulsifiers are added that are required and it is poured hot into these little packages and it is all done automatically. We would be glad to have you people come in to see how it is done.

COMMISSIONER MacKICHAN: Would you tell us the percentage of cheese of Canadian origin that is used compared to imported -- I am taking it for granted some cheese is imported.

MR. WARD: The percentage?



COMMISSIONER MacKICHAN: Yes, of Canadian cheese?

MR. WARD: The imported cheese is very, very small.

MR. WRIGHT: In the last twelve months for which figures are available approximately ten million pounds of cheese have been imported into Canada and we can get production about ten million pounds of the fancy type cheese, a reproduction of the imported variety, and Canadian Cheddar cheese consumption in both process and natural form in Canada is about 75 million pounds, so the imported represents approximately, let us say, ten per cent of the total utilization in Canada of all types of cheese.

COMMISSIONER MacKICHAN: And a large percentage of the imported would be used as such; it would not be reprocessed, would it?

MR. WRIGHT: For the main part that is correct. The predominant one being sold in the processed form is Swiss Gruyere, but the others, Roquefort and so on, are used in natural form.

MR. WARD: Just to keep the record straight, the Gruyere is processed in Switzerland and brought in.

COMMISSIONER MARTIN: It is imported as a finished product?

MR. WARD: Yes, the consumption is relatively small.

COMMISSIONER MacKICHAN: Probably it has



nothing to do with the price spread but I was wondering about your enthusiasm in reading these ads. Might it not be for the purpose of seeing what your competitor is doing rather than seeing what you could take home?

MR. WARD: I beg your pardon?

COMMISSIONER MacKICHAN: We appreciate the satisfaction you get from the ads and the enthusiasm with which you read them. I was wondering if it was not for the purpose of seeing what your competitor was doing rather than looking for something to take home?

MR. WARD: Well, sometimes we do read the competitor's ads too.

COMMISSIONER DRUMMOND: How many competitors do you have?

MR. WARD: In 1957 I think there were twelve producing processed cheese in Canada.

MR. WRIGHT: There used to be twenty-two a few years ago.

MR. WARD: In the 1957 report produced by DBS I think there were twelve. They turn out a report on processed cheese every year, and that gives you a list of the people.

COMMISSIONER DRUMMOND: Is there much difference in the scale of operation?

MR. WARD: Oh, yes, there is. Of course, some are just local producers.



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COMMISSIONER DRUMMOND: So you are really the three large ones?

MR. WARD: Yes. Canada Packers, for instance, has started to produce processed cheeses under the Maple Leaf brand.

MR. LEECE: I might say Burns & Company in Western Canada are also big processors of processed cheese. Their plant is in Calgary, Alberta.

MR. WARD: DBS issues a leaflet that gives you all that information.

COMMISSIONER DRUMMOND: Is it not a fact that in several European countries at least the per capita consumption of cheese had already become quite large long before most of our presentday processed cheeses were heard tell of?

MR. WARD: Oh, yes. The Europeans have always been, to the best of my knowledge, large cheese eaters. That is what I say, the story I was told when I first came to the company. We used to have these charts in which we indicated how small the per capita consumption was in Canada compared to other countries. The field was to work and teach the people to eat cheese.

THE CHAIRMAN: We will now adjourn until eleven-thirty.

---Short recess.



Submission of
THE EXECUTIVE COUNCIL
of
THE CANADIAN CHAMBER OF COMMERCE

Appearances:

Mr. Morgan Reid	Chairman, Executive Council
Mr. John Whyte	Chairman, Agricultural Department
Mr. John Sheridan	Assistant General Manager
Mr. D. Henderson	Manager, Information De- partment

LE PRESIDENT: Nous allons maintenant entendre le memoire de la Chambre de Commerce du Canada.

We will now hear the brief of the Canadian Chamber of Commerce.

---EXHIBIT NO. 88: Submission of The Canadian Chamber of Commerce, Montreal.

MR. REID: Mr. Chairman, members of the Commission, may I introduce myself?

THE CHAIRMAN: Yes, please.

MR. REID: I am Morgan Reid, Chairman of the Executive Council of the Canadian Chamber of Commerce. On my right is Mr. John Whyte who is Chairman of our Agricultural Department. Behind me is Mr. John Sheridan, the Assistant General Manager, and Mr. Doug Henderson back here is Manager of the Information Department of the Chamber.



THE CHAIRMAN: Thank you, Mr. Reid.

MR. REID: I presume, sir, the procedure is to read this brief. Unless you request otherwise I shall omit the long tables there.

The Executive Council of The Canadian Chamber of Commerce welcomes this opportunity to present to the Royal Commission on Price Spreads of Food Products its views on matters of principle and policy relating to the subject of the inquiry.

Introduction: The Canadian Chamber of Commerce is the voluntary federation of more than 750 Boards of Trade and Chambers of Commerce in all parts of Canada. These community Boards and Chambers are established to promote the civic, commercial, industrial and agricultural progress of the communities and districts in which they operate.

The Chamber includes among its objectives the development and presentation of an informed public opinion and the securing thereby of effective action by the national legislature upon questions relating to the economic and public welfare. The Chamber aims at supporting and developing the Canadian system of representative government and the preservation and further improvement of Canada's economic system based upon private initiative and individual enterprise.

This brief is submitted by the Executive Council of The Canadian Chamber of Commerce and is based upon these principles and policies which constitute



the platform of the Canadian Chamber. The Executive Council is the body appointed by the National Board of Directors, the governing body of the Chamber, to carry on the ordinary business of the Chamber during the interim between the meetings of the Board.

Chamber Policy and Philosophy: Before going into the essence of this submission, the Executive Council wishes to outline the policy of the Chamber concerning our system of competitive enterprise.

The Canadian Chamber of Commerce believes that the basic aim of public policy should be the maintenance of personal freedom. In this atmosphere the consumer is free to make his own choice as to how, when or where he will spend his income. The Chamber believes that the Canadian people can rightly judge what is in their own interest and can best exercise this judgment through individual freedom of choice.

These individual choices collectively provide the great stimulating and controlling force governing production. For this force to operate effectively, suppliers of goods and services must be free to compete for these choices, satisfying old ones more economically and searching out new ones promptly. Hence come the phrases "freedom of enterprise" and "the system of private competitive enterprise".

In this competitive atmosphere, only the efficient suppliers of goods and services can prosper.



Suppliers who remain inefficient or who continue to produce things no longer wanted will not survive.

Through such competition, changes take place and efficiency is increased to the benefit of the consumer.

The Chamber is not only concerned that freedom may be impaired or lost by encroachments and attacks from without but also that it may be destroyed by lethargy or ignorance from within. The system of competitive enterprise is a positive and dynamic force and the Chamber believes it to be the only economic system under which the individual can exercise his freedoms including his freedom of choice.

This system rewards those who venture and succeed through the application of individual enterprise and sound judgment. By rewarding success, this system draws forth the greatest initiative and effort of free men for the benefit of all.

The Chamber is opposed to all state interventions and controls beyond those clearly necessary to protect some accurately defined public interest. It believes that government activities should not involve detailed participation in the decisions of private business or competition by state agencies with private enterprise.

Canadian Chamber policy recognizes that sound and prosperous agriculture is vital to Canada's economy and that fisheries are a basic industry that provide a livelihood for a large number of people. The Chamber's



concern in the subject matter of the Commission's inquiry is not on behalf of any specific interest but rather on behalf of the general health and prosperity of our whole economy and for the good of all Canadians.

Terms of Reference: The inquiry of the present Commission relates to the study of the extent and causes of the spread between the prices received by the producers of food products of agricultural and fisheries origin and the prices paid by the consumers therefor, and the determination of the reasonableness and fairness of such price spreads in general or in particular cases in relation to service rendered. The terms of reference of the Royal Commission are restricted to one sector of the market place. While the Chamber is most anxious to express its views concerning some of the underlying principles and factors involved in the subject of this inquiry, it does not propose to consider any particular case in the food products industry. The Chamber wishes to point out some of the factors responsible for price spreads as far as the food products industry in general is concerned. It is believed that the producers and the business firms directly affected by the inquiry are more competent to indicate specific areas where costs and other factors have contributed to the spread in particular sectors of the industry.

The Chamber wishes, therefore, to draw the attention of the Commission to the following factors



which have undoubtedly contributed to the increase in the price spread in food products over the last decade, namely, higher taxation, higher wages and salaries, higher transportation costs, government regulations concerning food products, public preference for improved quality as well as better and newer methods of preparation and presentation of food products at the processor, the wholesale and retail levels, and more and better service particularly at the retail level. Generally speaking all these factors enter into the cost of the goods which are sold by the processor, the wholesaler and the retailer and because these costs recur at the several stages between the producer of food products and the consumer they contribute to increase the final price.

The Executive Council respectfully suggest that the burden of evidence reveals that widening price spreads are not necessarily harmful to any sector of the economy per se. David S. R. Leighton, Associate Professor of Business Administration at the University of Western Ontario, in a recent article in the fall issue of the Business Quarterly of that University supports the contention of the Executive Council that such price spreads have been largely a reflection of improved standards of living and should by no means be discouraged. Secondly, the Executive Council suggest that over the years a great number of variants have entered into the spread between the



price received by producers of food products, of agricultural and fisheries origin and the prices paid by consumers therefor. For example, the price paid by a prairie consumer of fast-frozen filleted ocean fish is something entirely removed from the consumer price paid for unfrozen fish at seaboard. The washed, cleaned, expertly packed and packaged farm produce commands a premium price over what might have been acceptable as a bulk product a few years ago. In other words, the price spread of today includes factors undreamed of a few years ago. Thirdly, the Executive Council suggest that the final price paid by consumers for certain highly processed foods, such as pre-cooked dinners and ready-mixed processed cake and other mixtures, must be regarded in relation to the savings made through the elimination of waste and through the sometimes enormous savings in time expended by the housewife. It is to be noted that there is a growing tendency in the labour market to utilize the services of married women. Without the savings in time possible to the housewife in the preparation of meals such an addition to the labour market might be difficult if not impossible. Fourthly, it is suggested that price spreads in the area of food products should probably be related to price spreads in other commodities where the processing and distribution charges would probably indicate similar changes throughout the whole economy.

An analysis of business profits of processors,

wholesalers and retailers in the food products industry shows, as will be seen later, that such profits did not contribute to the price spread which has occurred in the industry over the last decade.

Taxation: Taxation at all levels of government has remained high in the past few years and has even increased over the years as indicated in Table I. In 1949, taxes at the federal, provincial and municipal level represented 27.78 per cent of the net national income. In 1951, this percentage rose to 31.47 per cent and since then has remained at a high level.

TABLE I -- TAXATION IN CANADA

(\$ Millions)

	<u>49</u>	<u>51</u>	<u>53</u>	<u>55</u>	<u>56</u>	Prelim. <u>57</u>
Taxes (Fed.Prov.Mun.)(1)	3666	5394	6058	6537	7362	7684
Net National Income at Factor Cost	13194	17138	19156	20683	23054	23834
Taxes as per cent of Net National Income	27.78	31.47	31.62	31.31	21.93	32.24

(1) Including employer and employee contributions to social insurances and government pension funds.

SOURCE: National Accounts, Income Expenditures, D.B.S. and Budget Papers 1958-59

The cost of doing business for a processor, a wholesaler and a retailer has been affected by the greater impact of taxation in the last decade.

Taxes enter into the cost of the goods which are sold and, as previously mentioned, because the



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cost recurs at the different stages between the producer of food products and the consumer, it contributes to increase the final price. The fact that this cost has increased over the years lends support to the argument that high taxes since 1949 are in part responsible for the price spread in the food products industry.

Figures derived from Taxation Statistics published by the Department of National Revenue show that the profits (after taxes) of all fully tabulated companies rose from 4.1 per cent gross sales or revenues for 1949 to 5.1 per cent in 1950, and dropped to 3.3 per cent in 1955 (the latest year for which such figures are available).

In the light of the current squeeze on profits, it becomes obvious that cost increases, including taxes, must of necessity be reflected in higher prices. The sole alternative is a loss of profit which, if continued, leads to eventual bankruptcy.

Labour Costs: Labour cost is an extremely important factor in the determination of price.

An analysis of index number of average wage rates in the food processing industry and in the overall wholesale and retail trade found in Appendix I for the period 1953-1957 shows that average wages at the level of the processor have increased by approximately 20 per cent during that period.

The index numbers of average wage rates in the wholesale trade have also changed from 135.8 in



1953 to 148.5 in 1955 and 165.8 in 1957, an increase of about 22 per cent. At the retail trade level, the change from 130.8 in 1953 to 148.7 in 1957 represents a 14 per cent increase.

The Commission will, of course, have the advantage of completely up-to-date figures on wages, profits and prices as a result of the survey being made by questionnaire to various sectors of the food industry.

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While changes in wages affect prices as a cost they also affect prices through their influence on purchasing power. This influence of changes in wages on purchasing power and subsequently on prices should not be underestimated in accounting for the spread in the food products industry. As shown in Table II, total labour income in Canada has increased steadily after 1951, and has jumped as a percentage of Net National Income from 56.7 in 1951 to 66.4 in 1957.

TABLE II - TOTAL LABOUR INCOME COMPARED WITH
NET NATIONAL INCOME

(\$ Millions)

	<u>49</u>	<u>51</u>	<u>53</u>	<u>55</u>	<u>56</u>	<u>57</u>
NET NATIONAL INCOME (At Factor Cost) (Millions of Dollars)	13194	17138	19156	20683	23054	23834
LABOUR INCOME (1)	7761	9716	11715	13215	14719	15825
LABOUR INCOME AS PERCENTAGE OF NET NATIONAL INCOME	58.8	56.7	61.2	63.8	64.0	66.4

(1) Wages, salaries and supplementary labour income, such as employer contributions to pension, living allowance, workmen's compensation and unemployment insurance, including military pay and allowances.

SOURCE: National Accounts Income Expenditure and Budget Papers 1958-59.

Consideration of Profits: The Commission is, of course, aware that company profits in relation to sales at the level of the food processor, wholesaler and retailer, generally speaking have not increased markedly over the period 1951 to 1955. Appendix II shows company profits after taxes as a percentage



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of gross sales or revenue of profit companies and also loss companies in the food products business. With some few exceptions profits as a percentage of gross sales were less in 1955 than in 1951.

A consideration of profits and loss reported by active companies in the food products sector of the wholesale trade reveals that during the years reviewed in the table shown in Appendix II a large proportion of the companies reported a loss. In the retail trade a similar situation occurred in dairy and all other food products. In 1951, 467 companies reported a profit and 216 reported a loss. In 1953, 546 companies reported a profit and 204 reported a loss. In 1955, 671 companies reported a profit and 297 reported a loss.

In the light of the profit and loss picture and in view of the fact that since 1949 the food price index has moved at a slower rate and to lower levels than any other items in the consumer price index, it would appear that those concerned with the transportation, processing, packaging, wholesaling and retailing of food products have done an effective job of holding the price line in the face of an upward inflationary spiral. The keenest competition has been evidenced in these fields and this has resulted in obvious price benefits to the consumer. Price changes, to some extent, reflect additional services arising out of consumer demand. Consumer demand is indicated by preference selections at the retail level when competitive



products are offered for sale.

Government Regulations: The requirements of a wealthier and more sophisticated society has prompted government action to increasingly regulate the quality of food products reaching the consumer. Over the years government regulations at the federal and provincial and municipal levels with respect to grading, inspection, storage, handling and general presentation of food products, have extended to an increasing number of food products and have also become more rigid and comprehensive. Occasional revisions and adjustments of these regulations are made from time to time in the light of further experience and changing commercial requirements.

It can be said, of course, that all these government regulations with respect to the safeguarding of health are extremely desirable. The Chamber is not taking exceptions to any of these regulations but merely points to them as factors which have to be considered in the determination of prices. Such action is in line with the general trend of the upgrading of foodstuffs with the result that the consumer receives a better product.

Improved Methods and Better Service: In recent years there has been a trend toward increased attention in the preparation and presentation of food products. The food processing and distribution agencies cater more and more to the preferences of



consumers. Within recent years disposable income of consumers in general has increased and their preference with respect to food products has been in the direction of more packaging and processing such as pre-cooking and freezing, all of which add to the cost of distribution.

The extent of the activities performed by processors and others who contribute to the amazingly successful distributive process has increased enormously. A variety of activities formerly performed by farmers or consumers are now undertaken by others. For instance, more and more poultry is being killed and plucked in plants rather than on the farm. Canning of fruits and vegetables is being transferred from consumers homes' to plants. In other cases processors and others have undertaken activities because consumers were no longer willing or able to undertake them. This explains why bread is sliced, wrapped and even fortified with vitamins, why poultry is being dressed and carved and certain commodities are pre-cooked or frozen before being sold to the consumer.

All of these things are costs to the processor, the wholesaler or the retailer and of course must be absorbed by the consumer in his purchasing price. The pre-cutting of meat, pre-cooking, freezing, weighing, wrapping in individual sizes, of food products, all are added items of cost. The open freezer display cases, the sprinkler systems for



keeping vegetables moist and more attractive looking all contribute to the cost. The rise of consumer food products is due in part to this great upsurge in the total cost of distribution between the farm gate and retail counter.

In assessing the virtues of competition and the improved efficiencies and services which have developed therefrom, consideration must be given to the elimination of waste and the conservation of the time of the ultimate consumer. Trimmed meats, for example, which eliminate bone and excess fat may cost more to the consumer per pound but this bone and fat is largely waste in the hands of the consumer whereas some utilization may be made of these by-products by the processor. Pre-cooked foods make precious hours available to the housewife or to the working wife which can be put to other uses considered perhaps more important and profitable. These two factors merit careful consideration in any investigation of price spreads.

Another circumstance which must be considered concerns the capital investment outlays by the processing and distributive organizations that have had to be made, not only to meet the demands for food created by an increasing population with rising incomes, but also, particularly at the distributive level, to "bring the food to where the customers are". There have been major shifts in population since the end of World War II. In the areas surrounding large cities there have been



suburban housing developments of considerable magnitude and the development of large shopping centres on the periphery of cities has involved large capital investment. These outlays took place during the period when our export demands were strong and resource development was proceeding at a rapid pace. The major export and resource development capital programme undoubtedly helped push up the construction cost index because of the necessity to provide additional capacity to meet urgent demand. In its expansion programme the food industry had to absorb the resulting premium in costs which were built into the construction index. In recent years higher interest rates have also contributed their share to raising the final cost of this new investment. This must be taken into account in calculating costs above the producer level all of which contribute to the price spread.

Indices and Spreads: The Commission is, we feel confident, aware of the difficulties in relating one index to another and particularly in relating prices of agricultural products to the prices paid by the consumer. For example, the consumer price index includes a certain percentage of imported items such as coffee, tea, citrus fruits, bananas and other foods not produced in Canada. On the other hand farm prices of agricultural products include a number of non-food items such as wool, tobacco, hay, animal feeds, certain non-edible oils, fish, etc. This is one factor.



The other factor, of course, is that which has been referred to previously, that many services lie between the sale of a product at the farm and its ultimate purchase by the consumer. Marketing costs make up the difference and the major marketing costs have already been referred to. In a recent statement by the National Industrial Conference Board (the October issue of "The Conference Board Business Record") the point is made that farm prices are largely influenced by the supply of commodities, while marketing costs are not similarly affected. They point out, for example, that a heavy increase in the output of beef, resulting in lower prices at the farm level, may impose an additional strain on marketing facilities and so push up marketing costs. In general, the marketing margin is influenced by economic factors beyond the farm such as the costs already referred to including labour and transportation.

Competition: Suppliers are all under the necessary compulsion of competing for the consumer dollar not only among foodstuffs of a similar nature, but among other foodstuffs. For example, people in the fish business are competing among one another and are also competing with people in the meat business. Many of the larger processors establish test kitchens in order to improve their product and to compete more effectively with others in food products of a similar nature or other food products. All of these things



find ready acceptance but they do not add to costs.

These costs are not borne by the producer and therefore the spread between the producer's receipts and the price paid by the retailer is bound to widen. The Council contends that competition of this nature is desirable in the interests of the consumer who is free, at any time, to decide that a product is too expensive and can reject it.

Food, for example, can still be purchased in the raw form in many cases and cooked by the individual at home at his own expense. On the other hand, the retailer also sells precooked food for which he presumably paid more and if the consumer wishes to buy this type of food which has required additional processing he may do so by paying the retailer for the food and cooking costs involved.



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The Executive Council feels that it is important to point out that the various services provided by processors and retailers, such as test kitchens, attractive packaging and presentation, quick freezing, pre-cooking and so on, all contribute towards greater consumption of foodstuffs resulting in ultimate benefit to the producer. The Royal Commission on Canada's Economic Prospects pointed to the recent improvement in the real earnings of agricultural workers as resulting, among other things, from the higher level of domestic demand for agricultural products. The Royal Commission also pointed to the fact that trends indicate a decline in the number of Canadian fishermen but that the incomes of those who remain in the fishing industry should be much higher in 1980 than they are today. It is indicated that domestic demand will be strong for fish not only because of population growth but because new methods of keeping fish fresh will increase its appeal.

Conclusion: The Executive Council of The Canadian Chamber of Commerce respectfully brings these factors to the attention of the Commission with a view to impressing upon them the changes which have taken place in the processing, wholesaling and retailing of food over the past several years.

The Executive Council believes that if our economic system is to play an effective role in bringing to all Canadians a higher standard of living, as indeed



it has done in the past, then the market-place must be left as free as possible for the play of competition among the various units in that market-place.

A primary function of the market-place is the determination of price. Market prices represent commitments to buy and sell in response to anticipated needs, and consequently are a guarantee of a continuing physical flow of goods through marketing channels.

The freedom of choice of the consumer must be the determinant, in the final analysis, of price. Advocates of prohibition or regulation of competition are arguing for the elimination of the factor which has conferred innumerable benefits in terms of new products, innovation and efficiency.

As Professor Leighton, to whom we referred earlier, has pointed out, processors and distributors are not making large and undue profits and are not inefficient and therefore the argument that price spreads are high as a result of their operations would appear to be unjustified.

Any rigidity imposed upon the system merely compounds the problem which it is presumably designed to solve. If there is evidence of fraud, misrepresentation or unfair practices then enforcement of present legislation should be assured.

The correction of higher prices is, in the opinion of the Executive Council of The Canadian



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Chamber of Commerce, a problem which goes well beyond the spreads between the producer and retailer, as outlined in this submission.

Appendix I

INDEX NUMBERS OF AVERAGE WAGE RATES
IN FOOD PROCESSING AND IN OVERALL WHOLESALE AND RETAIL
TRADE

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Foods and Beverages	131.2	135.5	140.3	147.9	156.7
Slaughtering and Meat Packing	136.3	138.5	144.2	151.2	161.4
Dairy Products	127.9	132.6	138.1	143.7	151.4
Canned and Cured Fish	113.3	124.5	125.8	135.6	140.8
Flour Mills	143.4	150.0	155.6	158.7	166.7
Biscuits	135.9	146.3	149.4	156.5	158.9
Bread and Other Bakery Products	130.6	134.6	139.4	150.0	159.1
Confectionery	137.2	141.2	145.4	153.7	164.2
WHOLESALE TRADE (Overall)	135.8	142.3	148.5	157.5	165.8
RETAIL TRADE (Overall)	130.8	135.8	139.8	141.8	148.7

SOURCE: Economic and Research Branch, Department
of Labour, Ottawa.



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Appendix II

COMPANY PROFITS AFTER TAXES AS PER CENT
OF GROSS SALES OR REVENUE OF PROFIT AND
LOSS COMPANIES IN FOOD PROCESSING, WHOLE-
SALE FOOD AND RETAIL FOOD (SELECTED YEARS)

<u>Industry</u>	<u>1951</u>	<u>1953</u>	<u>1955</u>
1. <u>Manufacturing</u>			
Meat Packing	0.9	1.2	1.0
Dairy Products	1.9	2.1	2.2
Canning and Preserving Fruits & Vegetables	4.0	3.1	3.3
Grain Mill Products	1.7	1.4	1.1
Bakery Products	2.2	2.3	1.0
Canned & Cured Fish	4.3	-	2.1
Miscellaneous Food Products	3.1	4.1	3.9
2. <u>Wholesale Trade</u>			
Food Products	1.0	0.7	0.7
3. <u>Retail Trade</u>			
Dairy Products	1.4	1.4	1.7
Other Food Products	1.5	1.7	1.4

SOURCE: Taxation Statistics, Department of
National Revenue, Ottawa.



THE CHAIRMAN: Thank you, Mr. Reid.

Now, here again I want to say that we are in the next to last day of our hearings, and we have had a lot of this so far and many of the points in this brief have already been brought to our attention many, many times. However, there are quite a few points of interest, new points of interest, about which I am sure you will get questions from the Commission.

I would like to draw to your attention first, just as a matter of clarification, that on page 9, first paragraph, you say there in the midst of the paragraph: "For example, the consumer price index includes a certain percentage of imported items," and then two lines later: "On the other hand farm prices of agricultural products include a number of non-food items."

Now, in the chart at our back these two factors have been taken into consideration and imports have been taken away, have they not? It has been done on our chart, and it doesn't make much difference, the lines running about the same levels.

As far as the non-food items contained in the agricultural prices and the farm prices, the same can be said, that they won't change much.

Now, Dr. Drummond, would you ask some questions?

COMMISSIONER DRUMMOND: To me, Mr. Reid, I think the most significant question that might be raised



relates to a statement which you make at the top of page 10. You say that your Council feels it important to point out that the various services provided by processors and retailers -- then you list them here: Test kitchens, attractive packaging and presentation, quick freezing, pre-cooking and so on -- all contribute towards greater consumption of foodstuffs resulting in ultimate benefit to the producer.

Now, we have discussed this matter on several occasions, and practically the same statements have been made, and our questions have been framed something like this: We readily agree these types of services will have the result of increasing the consumption of the specific commodities concerned and perhaps increase the consumption of things sold by specific firms concerned, but our real wonderment concerns whether or not these types of services do add at all to the total amount of all commodities consumed.

MR. REID: Well, sir, I think in replying to that I can add an additional factor, that -- there are two things that seem to me rather important in this statement in attempting to reply to it for you. One, as already pointed out, income levels are higher in Canada, they increased over the period which the Commission is reviewing. Therefore, there is the additional factor that the average Canadian has more discretionary income than he had before. I won't say that the increased attractiveness of certain food



products as a result of these various efforts to improve and present a particular item would overall increase food consumption, because, after all, food products are competing with other demands on the consumer, other types of things to which he may devote his income, and I would think, sir, that it is a reasonably good assumption, by increased variety, better presentation, particularly against this background of higher incomes which finds its way into the spread itself, that it is, in fact, a correct statement.

COMMISSIONER DRUMMOND: Well, then, does that mean, in your view, that the average Canadian consumer of foods has been able, during recent years, to actually expand the stomach area?

MR. REID: No, sir. I have heard this argument. I rather feel that there are two things. The stomach area may not have expanded, but the type of food which is being consumed has a greater processed element in it. Perhaps when you get back to the primary level this means that there has been an increased demand for the basic agricultural produce. In addition I would say this: over this period again and this so-called inelastic stomach and increases in incomes, greater varieties of foods are just beyond what you would call the basic essentials -- and they vary from person to person, Mr. Chairman -- that there is, as a result, an increase in total food consumption.

COMMISSIONER WALTON: Would you also add



increase in population which has permitted this?

MR. REID: Oh, yes, this is quite true.

COMMISSIONER DRUMMOND: I am thinking of the per capita, of course.

MR. REID: Yes.

COMMISSIONER DRUMMOND: I understand you to say this, that primarily because of increase in consumer income during the period we are talking about a certain fraction of the population did not have the financial wherewithal to take the requisite number of calories -- let us put it that way?

MR. REID: No, I didn't mean to imply that at all. I would think that what I was saying was that there was greater variety of those food products that may have been considered in these years as something that was on the margin between a family, final decision, whether you are going to buy these tea biscuits which are prepacked or whether you are going to spend that money on some other essential food for the family. But I did not mean to imply the other side of the picture, that the calorie intake of Canadians was below what was considered necessary, because I don't know.

COMMISSIONER DRUMMOND: Even in Canada there were some people, for various reasons, primarily financial, I suppose, who were simply not able to get what our modern nutritionists say is a requisite for them, and because of the economically improved status of



these people in recent years they were able, and therefore did, increase their per capita consumption?

MR. SHERIDAN: I think there is another factor to be considered here, and that is perhaps in our childhood the hambone was kept to make soup. To-day the hambone is thrown away; you can buy canned soup, and that has increased the food consumption to a certain extent, and that is true of a whole series of things. I suggest, in the case of the witnesses who were here previously, we may be eating more than we perhaps should. Perhaps those who are eating beyond their minimal nutritional requirements do so because they are eating things which they wouldn't have if they were not so attractively presented. That is another point to add to the arguments which have been put.

COMMISSIONER DRUMMOND: That is a very interesting statement. I interpret it to mean this, that because we, let us say, take out bones, take out certain things which you call waste, that while human beings do not consume those, yet you are suggesting that technically they are, and therefore our practice of eliminating these things has the effect of increasing consumption.

MR. SHERIDAN: What I am suggesting is that because of the convenience of new products they are being used instead of making use of other things which involve a certain amount of time and effort in



the making of soup, and so on, and there is a double consumption of products where there was a single consumption before.

MR. REID: Mr. Whyte would like to add to that.

MR. WHYTE: I think mothers are more concerned about the nutritional value of food as far as their children are concerned than they were long before. This high protein food comes from animals largely; the animals in turn consume grain. Probably a long time ago a lot more porridge was being consumed than there is today, but the farmer may make greater use of the grain he has on the farm by having more protein food in a concentrated form.

COMMISSIONER DRUMMOND: Yes, I agree with all that, but I return to the initial question. It seems to me -- you are probably very well away of this -- that in recent years, particularly during this post-war period, the official evidence indicates that there has been a very pronounced shift in the type of things that people actually consume, I suppose; in other words, they have been taking much less cereals, potatoes, things like that, and have substituted therefor things like these protein foods, fresh fruits and vegetables, and so forth.

Now, substitution is one thing, but a total net addition is another, and I am anxious to know whether or not you actually believe that there has been a total



net addition of consumption?

MR. REID: Sir, I think that that is the feeling of the Executive Council, and presumably some measure that is most difficult to ascertain under any circumstances, whether you do it on a per capita calorie intake or some other way, but I feel that it is an overall opinion, that it does increase food consumption.

There is, incidentally, if I may add one thing, one factor that wasn't mentioned here, and it is becoming increasingly important, and that is that there is more marketing done in an effort to find out what the consumer wants, and therefore to avoid the wastage of putting these goods on the retail shelf which he doesn't want.

COMMISSIONER DRUMMOND: In your consideration of profits on page 7, you said that those concerned in the distribution of food at various levels have done an effective job of holding the price line in the face of an inflational spiral. In view of the trends of prices that you see behind here, would you not be inclined to agree that the farmer producers have done even a better job?

MR. REID: I think that the farm population have done an excellent job; as an old farmer myself, I have got to say that to begin with. I wouldn't argue with you on that point at all. I think that the profit figures do show that there has not been any real



expansion, and the competitive factor is so strong in the food industry that it is very difficult for anybody to obtain a particular advantage for any length of time. Would you agree with that, Mr. Whyte?

MR. WHYTE: Yes.

COMMISSIONER DRUMMOND: I could go through at some length this whole question of competitive factor, but we have done that on several occasions, and I am not sure that it would be too advantageous. But brief after brief refers to this fact, that the modern food business is extremely competitive. We readily agree with that. What we are concerned with is the basis or bases on which this competition takes place. What we are primarily interested in is the degree of price competition as against other types of competition. Perhaps you could give a summary, a statement of your own view as to how much price competition exists compared with other types?

MR. REID: Well, I can only answer it as a consumer who sees what his wife wants in foodstuffs. As we tried to say at the beginning of the brief, this is the ultimate point, it is the consumer that counts, her wants and her preferences. I think, from what I have seen -- and I am speaking purely from personal experience at the moment, as a consumer -- that there is a great degree of price competition at the retail level in foodstuffs, extraordinarily so, and personally I don't think there



can be any question about the fact that at the retail level in the food industry particularly and in the whole retail industry it is one of the most competitive areas in this country; there are over 150,000 retailers, and in my own experience I think I can say that I am quite convinced that there is a great deal of price competition.

COMMISSIONER DRUMMOND: I promised myself and others that I wouldn't ask any questions today. I will defer at the moment.

COMMISSIONER KIDD: I am not going to take too much time today for the reasons that have already been mentioned.

Returning to the top of page 7 again, you say: "The keenest competition has been evidenced in these fields and this has resulted in obvious price benefits to the consumer." Are you saying that food prices have declined?

MR. REID: No, not by any means. I think all we are saying is that this keen competition shows up in the profit margins as shown in this brief in one of these tables which has not shown any expansion at this particular level, and this is, I think, an expression of the very vigorous competition which does exist.

COMMISSIONER KIDD: Where are the obvious price benefits?

MR. REID: I think the obvious price benefit is through the competition which exists, and there has



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been no expansion in the final margin. This is the benefit that is derived from competition in our economy, increased efficiency, an increased effort to satisfy the consumer with a minimum of waste, and they find their expression in prices.



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COMMISSIONER KIDD: You say increased efficiencies have had an effect on prices?

MR. REID: I think that is quite right.
In other words, you cannot say prices went down. We are not really attempting to say that. We are saying they would have gone up more if it were not for that.

COMMISSIONER KIDD: Dr. Drummond mentioned that we have had quite a number of submissions that have said the same thing as you are saying, that there is a great deal of competition and sometimes price competition, sometimes other forms of competition. On the other hand, we have probably had an equal number of submissions that the sort of competition you are speaking about here is steadily being impinged upon, not by government action but by other forms of action, and if this is so, if these people are correct, what would you think are the possibilities of maintaining competition as we go along?

MR. REID: I am not quite sure what you mean in the other forms of competition. You said that some people have said that there are other things that are impinging on this competition process.

COMMISSIONER KIDD: Well, you mentioned 150,000 retailers?

MR. REID: I hope nobody takes that as an accurate figure.

COMMISSIONER KIDD: Give or take a few thousand. It has also been mentioned to us that there are



five or six companies in the retail field who have sixty per cent of the marketing now. That obviously is a fact that might have something to do with competition as you are relating it here that would be one of the other forms apart from government action. I am saying what do you think are the chances for maintaining the present degree of competition in Canada?

MR. REID: I do not really think that there is any less competition as a result of this. I should say, five, and I am not an expert in this field by any means, but again, as I replied to Dr. Drummond, I do think as a consumer that the competition process, including retailing, has never been stronger than it is today. I do not know what the tenor of the briefs of the other supermarkets and other members of the food retailing group has been, but I would think that you would find a rather broad, general opinion of that character. Perhaps Mr. Whyte may have something to add to this.

MR. WHYTE: Well, I feel that a good, alert, independent retailer is in a better position today to make a success of his business than he ever was. It requires, like every other business, a lot of know-how and skill and knowledge and good financing, probably to a greater degree than ever before. People who do not have those attributes, of course, will fall by the wayside rather rapidly, but this probably is a good thing because in the long run I think it is going to



allow a play of competition which will be stronger than it ever was before.

COMMISSIONER KIDD: Well, now, on page 2 you say in this competitive atmosphere, you point out the various reasons some firms cannot survive. Now, if these firms do not survive and if we move further along the road of fewer suppliers in any particular aspect of the food industry or in the total, if they do not survive, what do you think will be the effect on prices?

MR. REID: I think if you will look at this paragraph you will see what is implied there. What we are saying is that in a particular section of the industry suppliers who produce things that are no longer wanted, or are inefficient, will not survive. If the particular element of the industry goes out of business, undoubtedly there will still be an attraction, perhaps more so to those who enter the industry to operate an efficient plant which produces those things which people want and produces them efficiently. I do not think it necessarily follows you are going towards the end in this process.

COMMISSIONER KIDD: I am only keeping in mind what has been given to us on a number of occasions, that five or six companies do sell somewhere better than fifty per cent of the food sold in this country and if competition works in this way, that a number of firms will not survive then would that not be an



indication that we are moving further along this road?

MR. REID: I do not think so, particularly with an increase in population which they are going to serve. As long as the impact of taxation and other factors makes them profits, there is still an inducement for risk capital to move into this particular industry. Frankly, I do not think there would be any traffic in that direction at all. However, on the other hand, the burden of taxation is such it will discourage the thing, as it will in industry. I think that is a rather important factor in this.

COMMISSIONER KIDD: As Dr. Drummond says, this is a fascinating subject and we could spend a lot of time on it, but we have been around it a few times now.

On page 5 you have labour cost: how do you define labour cost?

MR. REID: Well, I think I will ask Mr. Sheridan because I keep thinking of my own business in this respect, and I might offer a definition which would perhaps be not quite as accurate in terms of what you want.

MR. SHERIDAN: Our labour costs in this regard are wages and salaries at all levels, processing, retailing and wholesaling, all those factors that go into the thing.

COMMISSIONER KIDD: I ask that question because there seems to be a conflict immediately you move



from that sentence into the next one, because I see nothing in the submission in respect to the relation of average wage rates, and on the next page total of labour income, which includes such things as paid allowances.

MR. SHERIDAN: Those are not strictly in that.

COMMISSIONER KIDD: At the bottom of that page in the last paragraph you say:

"While changes in wages affect prices as a cost they also affect prices through their influence on purchasing power."

Now, does this simply mean that as purchasing power rises prices should also rise?

MR. REID: No, the implication in this sentence is that the greater amount of discretionary income that is available to the consumer he is likely to spend it on more highly processed items of the character that have been discussed here -- frozen foods and items of that character, which have a larger input into the cost because there will be additional value by the consumer. That is what it means.

COMMISSIONER KIDD: This is not a discussion of either the supply or demand factor?

MR. REID: No, this is a basic sort of thing. This influence of changes in wages on purchasing power and subsequently on prices should not be under-estimated in accounting for the spread in the food products indus-

1. The first part of the paper is devoted to a general discussion of the problem. It is shown that the problem is of great importance in the theory of differential equations.

2. In the second part, we consider the case of a linear differential equation. It is shown that the problem is solvable in this case.

3. In the third part, we consider the case of a nonlinear differential equation. It is shown that the problem is solvable in this case.

4. In the fourth part, we consider the case of a system of differential equations. It is shown that the problem is solvable in this case.

5. In the fifth part, we consider the case of a partial differential equation. It is shown that the problem is solvable in this case.

6. In the sixth part, we consider the case of a boundary value problem. It is shown that the problem is solvable in this case.

7. In the seventh part, we consider the case of an initial value problem. It is shown that the problem is solvable in this case.

8. In the eighth part, we consider the case of a mixed boundary value problem. It is shown that the problem is solvable in this case.

9. In the ninth part, we consider the case of a problem with variable coefficients. It is shown that the problem is solvable in this case.

10. In the tenth part, we consider the case of a problem with discontinuous coefficients. It is shown that the problem is solvable in this case.

11. In the eleventh part, we consider the case of a problem with nonlocal conditions. It is shown that the problem is solvable in this case.

12. In the twelfth part, we consider the case of a problem with nonlocal conditions. It is shown that the problem is solvable in this case.

13. In the thirteenth part, we consider the case of a problem with nonlocal conditions. It is shown that the problem is solvable in this case.



We are not attempting to measure the impact of this.

COMMISSIONER KIDD: So it is not a question of increased purchasing power through demand increasing prices nor is it a question of supply increasing the possibilities of decreasing?

MR. REID: This is the use of income.

COMMISSIONER KIDD: All right, on that point it involves to a certain degree some of these points that have already been discussed, but you indicate that your belief is that demand is increasing the amount of food consumed in this country?

MR. REID: I think I said that certain things contribute, as we have said in the brief -- certain things have contributed to increased consumption. I do not think there is an overall statement that total consumption of food has increased. It is pretty difficult to say what the total consumption of food is, depending on your measurement.

COMMISSIONER KIDD: I believe it is a fact that disposal of consumer income as it is rising has meant that the actual amount that has been spent on food has been fairly constant in the past five years or so?

MR. REID: This is not the last survey but to go back to about 1948 or 1949, the actual consumer price index ---



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COMMISSIONER KIDD: Well, I am thinking
more based on the comments that we have received.

MR. REID: Yes.

COMMISSIONER KIDD: The percentage has been
pretty constant of disposable income. Of course,
there is a lot more disposable income now.

MR. REID: Yes.

COMMISSIONER KIDD: This gets into this
question of spread, of course.

MR. REID: Yes.

COMMISSIONER KIDD: If the actual amount
spent is still the same and the amount consumed is
also the same, then we have to try to account for the
difference that exists in the end there?

MR. REID: Yes.

COMMISSIONER KIDD: Well, there are a great
many more comments, but I will pass now.

COMMISSIONER WALTON: At the top of page
7 where you speak about the efficiencies in transpor-
tation and processing and on the whole an effective
job has been done holding the price line in food pro-
ducts and this was through this keen competition and
all these other factors which have been of benefit
to the consumer. I was just wondering if this fact,
the lower return to the producer -- I believe when
the food products are extracted from the other things
this line more or less follows it. Do you think that
this is a relatively small increase in relation to the



other increases of consumer goods which might have been done because of lower farm products if this line had been diverted?

MR. REID: That is difficult to say.

COMMISSIONER WALTON: Would you have any opinion on that or do you think it would be a factor in it?

MR. WHYTE: I don't think I could really have an opinion on that.

COMMISSIONER WALTON: This is our problem.

MR. WHYTE: Yes, surely. One of the factors -- we are not discussing them here, and I don't know whether I should bring this up, but it is an impact of world prices, of course. There is the factor of -- it has been mentioned here -- the change in the contents of crops and many other things of this character that do not operate all the same way at the final price point to the consumer.

COMMISSIONER WALTON: So many producer briefs have indicated to us they felt it has been at their expense perhaps that food prices have not gone higher in view of the other consumer products and that they are really through all these efficiencies all the way through. It has had a depressing effect on their prices.

MR. REID: On their farm prices?

COMMISSIONER WALTON: Yes.

MR. REID: I would like to ask Mr. Whyte if



he would have any comment. I wouldn't say so.

MR. WHYTE: I don't think so. I think any efficiencies that have been instituted in the processing from farmer right through to the consumer would have benefitted the farmer rather than anything else. I have an advantage as a manufacturer over somebody else and I can afford to pay a little more money to the producer because I can turn around on the same level and yet get a larger turnover of goods.

COMMISSIONER WALTON: It has been profitable in these last few years with the increasing population but even to increase the capital investment there must have been sufficient profit to protect the risk capital to provide for these increasing outlets that we have had to do the marketing?

MR. WHYTE: Certainly it has been at the retail level.

COMMISSIONER WALTON: Yes?

MR. WHYTE: It has not been so much so at the manufacturing level, I don't think.

MR. REID: I think in reply to an earlier question on the basis of competition, one of the measures of competition is seen in the comparative shoppers of retail organizations whose do constant price checking on the other fellow's price. This is perhaps the most tangible expression of this keen competition about which we have been talking.

THE CHAIRMAN: I have a question on one



factor that has been worrying the Commissioners for a while now, as to the impact of modern merchandising ways of bringing people to buy on impulse that they would not buy.

In your brief there is a particular point you mentioned that efficiency and absence of waste seems to be the rule, as much as can be seen in the food industry.

In answer to a question from Dr. Drummond you said these departments have got to be taken into consideration, and it enters my mind that I don't think that has been considered. The research and following inquiry is being made by firms who make research to find out if their products will be popular or not, as far as they can make out. Could that be construed as a thing that is really bringing better results and less waste and improving things?

MR. REID: I think that is quite true.

THE CHAIRMAN: I just wanted to point out what my question is. We have been asked many times if it would not be less wasteful to do away with advertising and promotional schemes and merchandising and let the goods go without the cost they involve. Would there be more waste following such a system where there would not be, evidently, any research practically, whether on the quality of the product or the demand of the consumer or has that kind of research inquiry prevented a lot of waste?



MR. REID: I think the research ---. I may state I am a firm believer in this, whether it is economic research or whether it is marketing research. I think research is important whether in the food industry or in any other industry, starting right from the point of whether you are going to invest in new physical assets of a particular place, where you think there are customers to be served, and then when you have discovered that whether the particular products you are going to sell in that particular area are products which consumers want or give an indication they want.

There is no assurance, by any means, but it is just rather a more intelligent approach to it.

I can think of what happened in the cities in the United States with this question of advertising. One newspaper stopped publishing for a period of time because of a labour dispute and the strange thing that happened was there was not only a decline -- as I understand it -- I have not got the figures -- but there was not only a decline in the sales of many types of retail outlets but that also included the food stores. This is a rather interesting thing.

I don't think it offers any general answer to some of the questions that have been posed but it is part of actual experience and as such I think it must be regarded as an indication of the importance of advertising in increasing sales of food products, and in



consumption.

THE CHAIRMAN: Going one step further, would it be absolutely impossible to really think that instead of being a costly procedure that all the costs involved through research and advertising and merchandising could well possibly be a saving if it was considered that waste is eliminated through previous research and information? Would that be possible?

MR. REID: I think so, sir.

MR. HENDERSON: May I say a word, Mr. Chairman? I think the previous question hit the root of the whole discussion of this question of whether or not we are following the controls of a free society or whether they be controls of a monopolistic society.

Probably if we were content as individuals, as Canadians, to accept one kind of cheese and we all must buy it whether we wanted it or not, then to me it would be conceivable to be cheaper to have one piece of cheese in the store than to advertise that there is available a choice of pieces. I think that is basic, and the expense of research, if I may so, Mr. Chairman, may result in some savings to some of the consumers but it also is a benefit in the upward market of our standard of living to which we are continuing to strive. If we can find a better way to do things through research for the Canadian public, then that is what we are aiming at in order to improve their standard of living.



COMMISSIONER MacKICHAN: Why should re-
search always turn up with higher prices for the pro-
duct?

MR. HENDERSON: I am not sure it always
does, sir.

COMMISSIONER MacKICHAN: I am not either.
It seemed to be the implication of what you said.

MR. HENDERSON: No. If I left that im-
pression that way I did not mean it that way. I think
research is designed, first of all -- if a business
firm starts a research project it is obvious it is
doing so not for the benefit of humanity initially or
essentially or necessarily, but in order to sell more
of its products, and therefore it tries to find some-
thing that is more appealing for those who are going
to purchase it.

This may or may not result in a cheaper
product. It could result in a cheaper product rather
than a higher priced product. I think I can point
to some things, apart from the food industry, in the
field of certain materials like nylons where you may
find that it is much less expensive to buy nylon
socks or nylon stockings today than it was to buy
silk stockings or socks previously. These are indi-
cations of research benefits.

COMMISSIONER MacKICHAN: After a few more
people got into the manufacturing?

MR. HENDERSON: Well, this always happens.



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THE CHAIRMAN: Well, it being a quarter to one now we will have to adjourn until 2.15. We want to see you again, if you can, at two-fifteen for a little more questioning.

---Whereupon the hearing adjourned at 12.45 p.m.
to resume at 2.15 p.m.



---On resuming at 2.15 p.m.

THE CHAIRMAN: Mr. Reid, I think Mr. MacKichan was asking questions when we left this morning. Do you have any more questions, Mr. MacKichan?

COMMISSIONER MacKICHAN: We are not at the chapter and verse just at the moment.

COMMISSIONER WALTON: Maybe I could pick up a question I was interested in. On page 2 of your brief, in the third paragraph: 'The Chamber is not only concerned that freedom . . . ' -- which, I take it, is free enterprise or profit and loss, whatever one wants to call it -- 'may be impaired or lost by encroachments on the tax from without but also that it may be destroyed by lethargy or ignorance from within.' It just occurs to me that in other fields -- and because you have said restrictive legislation of governments coming into things is something that impairs this economy we have developed in North America -- would you be prepared to add two words to that sentence: lethargy or ignorance "or abuse ?

MR. REID: I think that is right. When you say would I be prepared to add it, of course, I cannot change the text.

COMMISSIONER WALTON: I know you are doing principles.



MR. REID: I think we say that at the bottom of page 10: "If there is evidence of fraud, misrepresentation or unfair practices then enforcement of present legislation should be assured." That is not, really, specifically what you are saying?

COMMISSIONER WALTON: No, but the freedom of choice of the consumer -- this is on page 10:

. . . must be the determinant, in the final analysis, of price." In other words, you are assuming that the customer should have the freedom to choose and that, all things being equal, if these factors in this type of economy work all right, that it would be a fair choice. In other words, she calls the tune, and if abuses which we have -- I think it is on the record -- seen brought out in evidence in other sectors of the economy, that monopolies in certain industries have been brought up before the Combines Investigation, and so far as the consumer knew they had a free choice and everything else, but, in actual effect, in some sectors of our economy this was a controlled choice -- an artificial choice. There wasn't the freedom of the customer's choice. I would assume in following your philosophy on the first three pages -- and may I say I believe in this sort of economy, myself -- that there is room within it, particularly if you have units in any segment of the economy, when it becomes strong enough and powerful enough they can, in effect -- and it has been proven -- control the consumer's



choice as to price and, perhaps, even product. That is why I asked the first one.

MR. REID: You can possibly say that the Government itself -- I would not use the word "abuse", but in the area of reducing freedom of choice, and when we are talking about this price factor, the Government is the most powerful element in the whole picture. You can look outside of the food area for a moment, where certain types of excise taxes apply to certain goods, and not to others. Now, this is a control at price level, and the justification, except perhaps in revenue terms, has long since gone. But, is this an abuse of the consumer's choice, or isn't it? It is in a sense, because what the Government is saying is that perhaps some goods are less essential than others. As soon as you are forced into that type of approach, you are certainly, perhaps, abusing the individual's freedom of choice.

COMMISSIONER WALTON: Well, this was a leading question to one thing I had in the back of my mind, that the fact that there has evolved the necessity for certain government restrictions on certain segments of our business economy, because of abuses, your Association, as such, is representing, shall we say, the retail level and part of the distribution system, expresses a concern that we may eventually lose this free choice of entering into business or even choosing products. Has your Association,



as such, through its own locals or your national Association, had any practical demonstration, or have they evolved any practical methods to offset this loss of essentially, which is basically, individual freedom either in business or as a consumer? We have had briefs presented to us from producer groups who feel -- you have used the word "ignorance". In other phrases, some groups have said that if every group knew a little more -- which would mean better education -- we feel our present system would work better, and they have suggested it should be either a voluntary organization with government help, or another department of government with a cabinet minister, and others have said the industry itself, and they have included the producer and all the different groups, should be able to do more to promote better understanding between the people who produce and the consumers, and all the people who provide services. Has the Chamber of Commerce -- this is one of our terms of reference, that if we see -- and everybody has said that everybody is ignorant and they don't know what makes the other side tick; that if she knew more it would be better for Canada's economy. Have you got anything to help us?

MR. REID: I think I can say on that that the Chamber has two important committees; the Economic Development Committee, and an Education Committee. Both of these Committees, in their various ways, are directed towards this very important aim that you are mentioning.



Both these committees of the Chamber do a most effective job in this area all across the country. This is the story of competitive free enterprise, but the Education Committee directs its efforts towards -- I would not want to give the exact objective because Mr. Sheridan can do that much better than I -- but its support of our educational system, the belief that the consumer who has an education, in the broadest sense of the word, the best education possible in our country is the most-informed person and better able to make judgments of an economic character of this kind, and this is really the objective of such a committee.

COMMISSIONER WALTON: No; I was actually looking for a practical -- I notice one of the officers of your Council represents an agricultural ---

MR. REID: Yes.

COMMISSIONER WALTON: That acknowledges that this very important segment of our economy within your own Association -- you feel it is important to keep that liaison?

MR. REID: We do, very definitely.

COMMISSIONER WALTON: Without being selfish, are you each, as a consumer, assuming there is no particular merit to having consumer representation in this whole distributive or business chain? I am not doing a selfish thing in asking it, but you have acknowledged one. How practical or how effective has been the dissemination of better understanding within



your own group, or have you got a better machine, or do you feel that you need to have a better representation and better education programme? Are you reaching enough at both ends?

MR. REID: We can always improve. I think an effective job is being done in this area. I might add one comment, and that is that many of the trade boards and chambers of the Canadian Chamber of Commerce are essentially rural areas. We have a very local agricultural opinion that is expressed through the National Policy Committee of the Chamber, which sits once a year, which is a very democratic institution in the formulation of Chamber policy, which enables these particular areas to present their views as strongly and effectively as they can, and this all goes into the making of Chamber policy, and it is a very democratic procedure, because a small Chamber of Commerce from a rural constituency in Western Canada has an equal vote with the Montreal or Toronto Board of Trade. This is the way Chamber policy is formulated, and the background of that policy is the internal liaison in terms of the education which you have been discussing. I would like you to ask Mr. Sheridan to add to this, because I know he can.

MR. SHERIDAN: Mr. Chairman, I have an engagement which necessitates me catching the 3.05 train, otherwise I perhaps might occupy the rest of the afternoon on this. However, the Canadian Chamber of



Commerce, through a committee which is called the Economic Development Committee, operates an educational programme on behalf of Canada's enterprise system. This programme is one that is operated through more than eight hundred Boards of Trade and Chambers of Commerce in all ten provinces, and the Northwest Territories and in the Yukon as well. It also operates a programme for 2500 corporate members by way of radio, television, booklets, platform, news letters and every other media of communication. Each year the Canadian Chamber of Commerce, through a series of thirteen five-minute broadcasts, operated on over 100 stations, tries to bring out some of the aspects of our economic system with a view to developing a more-informed public opinion; through the news letter, the Canadian Business, the official magazine of the Chamber of Commerce, through committees in these 800 Boards of Trade, and through an unknown number of employees of the 2500 corporate members of the Chamber, this information on the role of profits, for example -- and one of the pieces of literature which was distributed recently was called "Economic Freedom and You" -- the relationship between you and me and consumers -- the relationship to freedom.

I would like to add one more thing in answer to the first part of Mrs. Walton's question with respect to abuse. I would like to point to a new piece of policy which was approved at the last annual meeting early in October and read it to you. It states:



"The Canadian Chamber of Commerce believes that sound relations with the public must be maintained by business to ensure dynamic growth of the economy and to preserve the free competition society."

And this is the significant sentence:

"This requires the practise of sound ethical standards of performance in relations affecting customers, shareholders, employees, proprietors, in the public interest."

Thank you, sir.

COMMISSIONER WALTON: This is just something -- I am not a specialist in any one field -- but it was this particular phase, and actually what I was trying to pinpoint was, do you think that your Association, as such, with all its memberships -- you are reaching a certain percentage -- but do you think, collectively, with other groups, who are trying to do the same thing, do you see the need for collecting all of these and having the impact so as you can reach the ultimate customer?

MR. SHERIDAN: I think, in answer to that question, that the Canadian Chamber of Commerce is an organization which has channels which can reach everyone in Canada. I say this because in a community, particularly a small community -- it is difficult to reach the people in the larger communities -- in the smaller community the Board of Trade is the



organization in the community, and if an effort is made at the community level to reach the community, it may be done, whether it is by public meeting, or through the local press, or otherwise. Also, the corporate members are certainly reaching down to the level of the man on the street.

COMMISSIONER WALTON: The urban population today is concentrated in the bigger centres and Canada's population is now 60 some odd per cent in the bigger centres. Would it be that a Chamber of Commerce finds it just as difficult in the bigger population of Canada to disseminate this thing they are trying to do, where the population is greatest -- it is almost like a concentration of the food industry. I draw that parallel there, and I am going to stop because I am sure I will get out of my depth.

MR. SHERIDAN: There are problems there, but the Boards of Trade and Chambers of Commerce are in communities of 200 or 300 people as well as in the larger communities. They reach the larger communities through the medium of television and radio where you may not have the same success in reaching the smaller areas. So, you have a different approach for the two areas, but I think it is possible.

COMMISSIONER WALTON: Thank you.

COMMISSIONER MacKICHAN: The question which I had when we adjourned at noon had to do with the middle paragraph on page 4, which says, "An analysis



of business profits of processors, wholesalers, and retailers, in the food products industry shows, as will be seen later, that such profits did not contribute to the price spread . . . and these words are mine, 'in any degree' -- . . . which has occurred in the industry over the last decade." That is the combined profits of all these people did not add anything to the spread, and you quote Professor Leighton twice, and, while I haven't the article with me, I think the nearest he comes to it is to say, not making large and undue profits". But, this unqualified statement on page 4 bothers me a bit.

MR. REID: I would like to say this: if you will look at the profits in relation to the sales, there certainly has not been any expansion as a percentage, and I remember a statement in the Royal Commission which met in 1949, and in discussing profits at the distributive level there was a statement something to the effect that if all profits had been eliminated at this particular level the reduction in price would have been very slight. I think this is a reasonably correct paraphrase of what is said; you can easily check on that.

COMMISSIONER MacKICHAN: I probably would not have brought it up if the words "very slight" had been there.

MR. WHYTE: I think it really means that it has not increased the spread.



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COMMISSIONER MacKICHAN: Perhaps not at this point, but in your Appendix II you show that meat packing did and dairy products did and miscellaneous food products did -- that is at the manufacturing level. In the wholesale trade, food products did, and in the retail section dairy products did.

MR. WHYTE: Some did and some went down.

MR. REID: This is a broad statement on the entire structure.



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COMMISSIONER MacKICHAN: But it would be just peculiar, wouldn't it, if in those years these different segments didn't contribute something to the spread, the profit portion of it?

MR. WHYTE: It didn't contribute to an increase in spread; I think that is what is implied here.

MR. REID: We don't think that it did, sir.

COMMISSIONER MacKICHAN: In Appendix II we have been interested -- and we probably had it in your questionnaire -- if the invested capital had been one of the items shown.

MR. REID: Well, I think there is a question there, too. When you get into this question of invested capital -- and this is something that could be discussed for some time -- we are not sure what the discussion really proves. But there is one factor, of course, and that is that there has been a development at the retail level, at any rate -- and this is the only one I can talk about -- towards leasehold operations, towards lease-back type of business, and whether this is a liability to wholly-owned operations, and so in comparisons of that character I think you have to be careful you are comparing the same type of thing.

COMMISSIONER DRUMMOND: I think they have shown some substantial gains.

MR. REID: There has been a trend towards



the lease-back type of operation in that period.

THE CHAIRMAN: I understand you have received no questionnaire from the Commission?

COMMISSIONER MacKICHAN: Not as such.

MR. REID: No.

THE CHAIRMAN: In order I get this right, I assume that this paragraph on page 4 indicates that in the period between 1951 and 1955 profits on sales, having been lower, they should not have tended to increase the spread?

MR. REID: Yes, we do not believe that profits have contributed to the increase in spread.

THE CHAIRMAN: I think it is right to say that if the profits had been lower on sales they have, in fact, somewhat reduced the spread?

MR. REID: In those areas that could be so.

COMMISSIONER DRUMMOND: On page 6 under the heading "Consideration of Profits" there is this statement, that company profits have not increased markedly over the period 1951 to 1955, and the word 'markedly' seems to me to be rather significant. It would suggest that they have increased somewhat, and, if that is so, then they must have made some contribution.

MR. REID: I wouldn't think necessarily. Mr. Whyte, would you like to comment on that?

MR. WHYTE: Between those two times, of course, there has been a considerable increase in



population and a resulting increase in the amount of business done, and while there may be more business done, even at that level of profits, you do have the same total in the final analysis.

COMMISSIONER DRUMMOND: You are taking the net profit rate?

MR. WHYTE: Yes.

COMMISSIONER DRUMMOND: This statement is referring to total profits, rather than the rate of profit?

MR. REID: Yes.

COMMISSIONER WALTON: Smaller profit on a bigger volume?

MR. REID: Yes.

COMMISSIONER KIDD: Those profits you have listed, they are profits on the sales dollar?

MR. REID: This is in Appendix II. That is right.

COMMISSIONER KIDD: And the profit figures for the industry as a whole and for segments of that industry as a whole. Now, wouldn't you say that it gives a correct picture when we have already seen, as we discussed before lunch, that there may be a relatively small number of companies with a large share of the market and -- considering that factor -- these companies may have better profits than the large group of small companies, which, of course, when you are adding the total you may say that the total for the total industry



is not very much, but for the segment of the industry which controls most of the market, would you say that there may be a big impact? Let me put it another way. Supposing there was an industry with twenty-five companies in it and there are five large companies control 95 per cent of the market, and those five companies get seven per cent of the sales, the other twenty companies get one per cent of the sales. Would it be fair to say that the average is about three?

MR. REID: I can take this to the distributor's level and ask Mr. Whyte to pick it up from there on. I don't think that these things necessarily follow. I think it is possible that you can have a situation where there are many small independents in the retail trade, some of whom may be in areas which, for purely geographic reasons, are less subject to intense competition. It is conceivable that in these minority areas, as has been suggested, that you may actually have a higher profit level than in the five competing groups where you have intense competition in a highly organized location. I think it is quite possible. I don't think you can derive that conclusion, though.

COMMISSIONER KIDD: Would you say that as turnover increases it could be expected that there would be a smaller unit profit?

MR. WHYTE: I think it depends on what kind



of turnover it is, of course.

COMMISSIONER KIDD: Let us take the food industry, which is an industry of rapid turnover, and as the sales multiply, my question is, is it not fair to expect that you can get a lower unit rate of profit?

MR. WHYTE: I should think you should get a higher rate of profit, shouldn't you?

COMMISSIONER KIDD: I would be interested in hearing your reasoning there.

MR. WHYTE: I think most businesses are set with a different number of -- this is a big question -- they have fixed overhead and various other factors which come into it. The more volume you do, of course, the smaller the fixed overhead becomes.

Well, answering another question you asked a little while ago, Mr. Kidd, and that was what effect these large manufacturers or businesses have on the overall picture. I think there are several things. Mr. Reid has mentioned location; that is very important. Another thing which is equally important is the management of the business. I know of businesses of an equal, similar type, and both small businesses competing against large businesses, and one business does well, another one does poorly, mostly because of the management picture.

COMMISSIONER KIDD: Which would you say was the more reasonable yardstick: profits on sales or profits on investment?



MR. REID: Well, in the first place, could I ask you -- a yardstick for what, sir?

COMMISSIONER KIDD: Well, we are talking about profits at this moment.

MR. REID: Well, I don't think that question could be really answered conclusively. I don't see how it could be, really. Both these factors are taken into account.

COMMISSIONER KIDD: This is the problem with the Commission. Supposing we have a company that comes in and says, 'We only made 4 per cent on our sales,' but you look at the balance sheet and they have made 40 per cent on investment. Which is the yardstick this Commission should use in measuring profits?

MR. REID: It is very difficult to pinpoint the investment picture, because it depends on whether you are talking about property which is leased back or whether you are talking about wholly-owned property and how they appear in the balance sheet of the company concerned, but certainly there must be a return on investment. You would have the incentive, not only in expansion to provide for the needs of more customers, particularly customers in other areas, but also to provide the incentive for the input of new capital assets in the form of improved machinery, things of this character, which in turn can, overall, reduce the prices because these are factors tending towards increased productivity. So from that standpoint you would have a return on investment,



because it is an important factor in making possible those things which provide for an efficient operating business, whether it is at the processor, retailer or wholesaler level.

MR. WHYTE: I think you would have to look at the nature of the business. Some businesses, by their very nature, have a very short life, and by that I am speaking of the uranium business. We don't know how long it is going to last, and yet there is a tremendous amount of money spent on that industry.

COMMISSIONER KIDD: Isn't that a rather bad example to take, because there has been a guarantee to ensure return on investment?

MR. WHYTE: Until 1962. I am thinking of the type of business that may be replaced by something else in the not too distant future.

COMMISSIONER KIDD: Would you say, Mr. Reid, that the better measuring stick for us would be return on investment?

MR. REID: I don't think you can take either one; I think you have to take both from an operating standpoint. The operator looks at the return on sales. From the standpoint of the input of further capital into the business, there must be an adequate return from the investment standpoint. So I don't think you can answer this question absolutely.

COMMISSIONER KIDD: In the last day or so we have had one or two producers come before us and tell



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us that their prices have been set on the basis of the cost of manufacturing plus productivity. Now, on page 3, in the middle paragraph, you say that these factors that you have listed enter into the cost of the goods which are sold.



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Would you agree with the other submission I mentioned, that profits are also a cost to the consumer and enter into the final price of the article?

MR. REID: Well, I can only refer back to the previous statement that if all profits were eliminated it would, of course, mean that none of these businesses could continue to operate to provide food-stuffs, to provide a market for what the farmer has produced or to pay the wages to the people who are going to consume the food. If all profits were eliminated it would only mean a very slight change in price. I am merely quoting the answer to the previous findings, and I do not think the situation has changed.

COMMISSIONER DRUMMOND: Mr. Reid, you have outlined in your brief what you believe to be the challenges of the free competitive system and reference has been made in the succeeding discussion to some of the characteristics of that system. In the passage which Mr. Sheridan read to us a few moments ago the words "sound, ethical standards of performance" were included in the end passage. I am wondering whether there might be quite a difference of judgment or opinion or conclusion as to how "sound, ethical standards of performance" might be defined. Now, we spoke this morning about the whole question of competition in this system and about the fact that appears to be quite definitely a fact that you have several different kinds of competition operating contemporaneously under this system and price competition is only one. Now, among



the others I am wondering if there are not some that we would all perhaps agree were in every sense justifiable but possibly some others that might be at least seriously questioned. Perhaps some of those types of competition, if you want to be very specific, think in terms of the current practice of food distributing firms giving very huge prizes, running contests and so on, all with the same general objective in mind of expanding their particular volume of sales. From their standpoint it is good economics, nevertheless, each of these types of competition does require expenditures, first on their part and eventually on the consumer's part. They are a cost of marketing. It would appear to me that those particular forms of competition would be not used today if those who used them did not get far more for their money by using that particular form of competition than, let us say, straight price appeal. I am wondering whether or not your Association has given any serious thought to the question as to whether or not some of these types of competition might not be very well regarded as definite abuses of this system?

MR. REID: Well, in the first place I think that you would probably agree that sound ethics is a pretty subjective thing; I think we all might have different views within a modest range. There are some things there would be more people agree on than others. I do not think I can comment on your statement



that this form of competition of putting tin soldiers in cereal boxes is particularly unethical provided the consumer shows by their preference in buying it that that is what they want. I know as an individual I can walk into any food market and I can either buy a box of cereal that has no toy soldier in it or I can buy one that has. I might be buying a different bundle when I buy the box with the toy soldier in it because my young boy wants a toy soldier, but nevertheless this is my exercise of customer preference. I can buy this or I can buy a box of cereal and go somewhere else and buy a toy soldier. I do not think this can be regarded as unethical in any sense of the word. If the individual consumer can still exercise his preference, this to me is the most important point and it is one which the Chamber is particularly trying to emphasize in terms of this new statement of policy of the Chamber, emphasizing consumer preference and the importance of competition. We stand on that as our principal statement of policy.

COMMISSIONER DRUMMOND: It seems to me you have what is perhaps called two types of freedom. You have the one which you just indicated, the freedom of the consumer to buy what he or she wants, whether it contains a toy soldier or some other gadget. You have also the freedom of the food distributor to use that particular method to play upon the relative lack of knowledge, the relative indifference and the relative



inclination of the average human being to fall for a type of inducement which is relatively valueless.

Now, there are two types of freedom and I am wondering which, in the last analysis, is the one to be considered most.

MR. REID: I think anything that is fixed in peacetime, the consumer preference is the reduction in freedom. I can only comment this way: I was Assistant Administrator of Retail Trade during a couple of war years and I remember that in this same area -- it is really basically the same -- we attempted to establish what we thought were essentials in certain products and services and non-essentials. We found that some of the consumer groups, such as those with which Mrs. Walton has been associated, had a very different opinion and expressed themselves very forcefully and very intelligently on this. I think I learned my lesson at that time that the question of value is a subjective one too. If you want to buy that toy soldier along with your cereal product I believe every Canadian should have a right to do so, whether I buy it or not.

COMMISSIONER DRUMMOND: Well, that is quite a definite statement of view, and that is what we want. The other viewpoint which has been expressed to us on a number of occasions is the fact that all of those engaged in the food handling business are supposed to be handling food, not a whole lot of other things which



are normally supposed to be handled more efficiently by other media. That is the other viewpoint.

COMMISSIONER MARTIN: On page 6, at the bottom of the page, and the top of page 7, you say:

"... the food index has moved at a slower rate and to lower levels than other items in the consumer price index, it would appear that those concerned with the transportation, processing, packaging, wholesaling and re-tailing of food products have done an effective job of holding the price line in the face of an upward inflationary spiral.

To me it seems you suggest in that that the food business has done a better job than other types of business. Is that what you mean by that?

MR. REID: I do not think this is a comparative statement. It says "have done an effective job."



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COMMISSIONER MARTIN: Yes, but you relate that to the fact that the food price index is going at a slower rate and to lower levels?

MR. REID: Of course, in the consumer's price index you take certain other items such as service and shelter, which has gone up more than the food price index. This is the meaning of this sentence, a comparison.

It shows that a more effective job in holding the price line has been done here. Certainly the rental index and the service index have risen rather substantially over a comparative period of time. This is purely a comparative statement.

COMMISSIONER MARTIN: Suppose they do as efficient a job as any other type of business. If the prices stay lower does it simply mean that the cost of the raw material which in this case is the farm product was lower than it should have been compared to ---

MR. REID: I would not say "than it should have been" because I would not profess to be an expert at all.

COMMISSIONER MARTIN: Has been lower over other raw materials?

MR. REID: I think this is undoubtedly an element in the picture.

COMMISSIONER MARTIN: Thank you.

THE CHAIRMAN: Mr. Reid and gentlemen,



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thank you very much for a very interesting brief.

MR. REID: Thank you very much, sir, and members. We appreciated the opportunity of being here even though I am not in the food business and just happened to be Chairman of the Council this year.

THE CHAIRMAN: Thank you.



Submission of
CANADIAN FEDERATION OF AGRICULTURE

Appearances:

Dr. H. H. Hannam	President
Mr. David Kirk	Secretary

THE CHAIRMAN: We will now hear the brief
of the Canadian Federation of Agriculture.

---EXHIBIT NO. 89: Submission of the Canadian
Federation of Agriculture.

THE CHAIRMAN: Are you going to read the
brief?

MR. HANNAM: Mr. Chairman and members of the
Commission: I propose merely to mention a few highlights
of our Canadian Federation of Agriculture presentation
today. David Kirk is Secretary of the Canadian Federa-
tion of Agriculture. He is an economist and at the
present time is handling the economic work for our
Confederation. He will present our brief and be our
witness.

In our presentation we contend that by any
reasonable standard of comparison, food prices cannot be
considered high or excessive. Yet, at the same time,
it is the responsibility of this Commission to investi-
gate the widely held view that the marketing and dis-
tributing margins on food prices are excessive. Our
position is that if these margins are too high their



main effect has not been to raise consumer prices to unduly high levels, but rather that these extending margins are one of the causes of low prices to the producer.

We will have a brief observation to make about the problem of price spreads. For the most part these observations will be aimed at informing the Commission about some of the questions which we hope they will investigate, and deal with, in their report.

Food as a fundamental of well-being is understandably a matter of vital concern to consumers. Views as to the reasonableness or otherwise of the level of food prices, and the conditions that determine those levels, are widely and passionately held in our society.

For this reason, and because, of course, of the direct bearing spreads have on producer returns, we attach great importance to this Commission's work. Not only are we looking forward to its findings with great anticipation, we are undertaking to ensure that the work it is starting not be lost, that a continuing research and information programme be established following the presentation of this Commission's report.

That is all I have to add. Mr. Kirk will present our brief.

MR. KIRK: Introduction.

1. The appointment of this Royal Commission on Price Spreads of Food Products is regarded by the Canadian Federation of Agriculture as an occasion of



first importance to the future of the farm industry in this country. When in January of 1957 the annual meeting of the Federation decided to ask that an inquiry like the present one be undertaken, it had become evident that among farm people there was a growing concern with the widening spread between the farmers' price and the consumers' retail price. This concern cannot be attributed to any single commodity or circumstance, although there is no doubt that the position in respect to meats bulked large in the thinking of our membership.

2. The Canadian Federation of Agriculture is as its name implies a federation of farm organizations, representing all major sectors of agriculture, and with members in every province of Canada except Newfoundland. The CFA is a general farm organization embracing all bona fide forms of producer organizations. This includes direct membership, general farm organizations, cooperative enterprises, marketing boards and commodity associations.

3. Since its appointment the Commission has heard representations from a large number of organizations, including many of the farm groups represented in the Canadian Federation. It is not our intention at this time to bring forward detailed evidence on price spreads because we think that to the extent such evidence is available to our memberships it has already been put before the Commission. In addition the Commission is undertaking extensive research into the



subject and enlisting the assistance of departments of government and business and cooperative organizations in assembling data and interpreting it. It appears to us that the best contribution the Canadian Federation of Agriculture can make at this stage is largely to look at the reasons why we think this Commission was needed, and what we hope to see result from it.

Scope of The Inquiry.

4. The representations that have been made, both by farm and non-farm groups, have clearly shown that in the minds of the people of this country the subject of price spreads embraces a very broad range of problems. No doubt the Commission has at times felt that its terms of reference can hardly be considered to cover all the subjects and problems placed before it. We think, however, that it would be a very great shame if the Commission were to interpret its instructions narrowly, and in doing so to fail to come to grips with many of the questions that are felt by both producers and consumers to be matters of vital concern. If, in fact, the Commission is drawn to some extent into a consideration of broad questions of agricultural policy and examination of the economic condition of the farmer and the reasons why he is in this position -- this is all to the good.

5. We could illustrate what we mean, perhaps, by looking at the wording of the first reference of the Commission. This states that the Commission



is to inquire into the extent and causes of the spread between prices received by the producer and prices paid by the consumer for food products. A narrow interpretation of this instruction might lead the Commission to confine itself to an examination of the costs that are added to the price of a product after it has left the hands of the producer. It might consider that the return to the producer could be ignored and concern itself only with the other elements in the final price to the consumer. If, however, the Commission were to adopt this point of view, it would fail to take into account that the extent" of the spread, considered as a proportion of the total price which the consumer pays, is determined by the return which the farmer receives, as well as by the amounts added to the producer price for transportation, storage, processing, packaging merchandising, etc. It would also tend to ignore the ways in which farm price changes affect the marketing margin, and vice versa -- an important area for study.

Price Spreads and The Farmers' Economic Position.

6. A great many of the submissions made to the Commission refer to the changes in the spread in percentage terms, and it is significant that the Economics Division of the Department of Agriculture, in the limited amount of work which it has been able to do in this field, has concentrated on statistical



measurements of the 'farmers' share of the consumers' dollar'. The decline in recent years in the farmers' share is a reflection of the unfavourable economic position of the farmer as well as of increased marketing margins.

7. When you have a situation, such as has developed in the period since 1941, in which in spite of inflated costs farmers receive less for what they sell, while consumers pay more for the end product, it requires on the part of the consumer more than a casual glance at the prices on the grocer's shelves to be convinced that Canadian agriculture is in the very difficult position that actually exists.

8. The facts are that in the years since 1948 the income per farmer has dropped some 20 per cent measured by the purchasing power of that income. This contrasts with a rise of some 30 per cent in earnings in industry, again measured in constant dollars. The decline in farm income has taken place in spite of a nearly 30 per cent reduction in the number of self-employed farmers and a heavy substitution of increased capital for paid and unpaid family labour.

9. Food is, deservedly, the subject of much public concern, on which people hold strong opinions. These opinions are inevitably reflected to some extent in their attitude toward the people who produce the food -- that is, the farmer. It is



a well-known fact that farmers today look to the government to help alleviate and correct the disabilities under which agriculture operates. Also it is often imagined that the assistance provided is very much greater than in fact it is. It is also true that farmers are widely organized through voluntary cooperative associations and other organizations, and are increasingly turning to the formation of marketing boards, through which they use special regulatory powers granted by government, and administered by farmers by their common consent.

10. Since then, for very good reasons, developments in agricultural marketing and price policy are so often associated with government action in one form or another, the problems of agriculture are to an unusual degree made matters for public debate. There is no action taken by government on behalf of agriculture that is not widely referred to in press and radio. Yet at the same time public and parliamentary discussion takes place very often in a context of controversy and strong farm pressure for action. Without a reasonably accurate understanding of the basic position of the farmer in the economy on the part of the public that is likely to lead to public resistance to and even resentment of action taken on the farmers' behalf.

11. It must be freely granted that government action to assist agriculture in any form is action



taken by all the people of the country acting through their elected representatives. The public, therefore, has a very legitimate interest in assuring themselves that government action which is taken is justified on principles of fairness, equity, and the public interest. The farmer does not feel that he is the recipient of unjustified government benefits, either in the form of direct assistance, services, trade and tariff provisions or enabling marketing legislation. Rather the contrary. It is easy to understand then his concern that the real nature of his economic position is being so thoroughly hidden from view in the place where, more than any other, the people of this country gain their direct impressions of the situation respecting food prices and marketing -- that is, in the food store.

12. In the face of steadily rising costs farm prices today are on the overall picture lower than they were ten years ago, while retail food prices as a whole are 25 per cent higher. This is the simple and startling fact that at one and the same time illustrates (a) that there is a farm problem which is one of the most serious economic and social problems facing this country today, and (b) that the very existence of this problem is obscured, and its solution made more difficult, by the rising level of food costs to the consumer.

13. The Canadian Federation of Agriculture



submits that it is vital to proper consideration of public policy respecting agriculture in this country that the above facts be understood by the public. We look to this Commission to clearly state them, and underline their significance. We believe what we are saying here is very relevant to the work of this Commission, since it deals with the "extent and causes of the spread" as your terms of reference put it, and also unquestionably deals with one of the major sources of farmer and consumer interest in the price spreads question.

The Cost of Food.

14. The Commission's terms of reference direct it to determine when spreads seem to it 'excessive'. This of course is a primary purpose of the inquiry. Yet we see, in this connection, some danger of an impression being created that the starting point for the Commission is an assumption that food prices are too high. Though in particular cases marketing margins may well be excessive, we would like to make it clear that in a general way we do not consider that the consumer today has to pay too much for food. Compared even to 1935, when farm prices were also depressed, the people of this country are paying a smaller proportion of their income for food, and at the same time are buying per capita a good deal more and better foods with that money. The same is true by comparison with ten years ago.



15. In a general way, this is as it should be. With rising standards of living we can and should expect that after meeting their food needs people will have more buying power left over for other things. But we strongly suspect that we are living in a time when the expectations of people in the way of improved living standards are so high that even with rising incomes a severe strain is put upon a great many family budgets in an attempt to live up to these expectations.

We don't say that this is a bad thing in itself. It may very well be an optimistic attitude that is good for the country and its economy. But how does it affect the consumer's viewpoint on her food bill? Here too her standards of consumption in respect to quality, quantity and service are rising, but as likely as not the price of food is judged by her according to the ease with which she can meet the weekly or daily food bill with what is left over after all other expenses of a more fixed and seemingly inevitable nature are taken care of. When on any day or in any week money is short and budget economies seem indicated, the only flexible item of expenditure permitting any such economies is likely to be food purchases.

16. Do consumers expect to get their food too cheap? Many farmers think so -- that is, they feel there is a widespread feeling among consumers



that food prices are "too high". We do not think the facts support such an impression. On any reasonable basis of comparison food is fairly cheap. It is certainly cheap as far as the return the farmer gets to cover his costs is concerned. It is cheap compared to the rise in wages in industry. It is cheap when judged by the rising level of food purchases and the even greater rise that has at the same time been possible in other consumer purchases. It is cheap if food price increases are compared with price rises of other consumer goods. If the spread is too wide, we suggest it is for the most part too wide at the expense of the farmer.

17. The Canadian Federation of Agriculture is very aware, and appreciative, of the fact that in the many briefs that have been presented to this Commission by organized representatives of consumers there has not been a great tendency -- it would be wrong to say there has been no such tendency -- to take the view that farmers must be receiving excessive returns for their products. Yet there is at the same time a general attitude that food costs to the consumer are too high. This of course is where the spread comes in. If the spread can be lowered well and good, but we come back to our original point and say again that we think it would be wrong to accept an assumption that food costs to the consumer are excessive.



18. All this has, perhaps, not too much to do with the problem of studying the actual costs that go into the marketing margin, but we submit that it has a lot to do with the fact that this Commission was established; and the Commission should take this into account in preparing its report.

Price Spreads and Future Developments in
Marketing Policy.

19. The Canadian Federation of Agriculture wishes to emphasize what we believe to be the fact -- that adequate information on price spreads is of great importance today not only as a matter of consumer and farmer information and education, but for the practical working knowledge which farmers need to plan the direction of farm marketing policy in the future, and to carry out those policies. Therefore, we are looking to the Commission to provide a good deal of such working knowledge, and to lay a foundation for its expansion and continuation on a current basis in the future. We think the importance of this subject to the practical problems of farm policy is well illustrated in the next four sections of this submission.



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The Effects of Increased Marketing Margins.

20. One of the effects of an increasing margin between the price received by the producer and the price paid by the consumer is an increased rigidity of the retail price. A drop of 10 per cent in price to the producer brings a much smaller, frequently a hardly recognizable, reduction in the retail price. The result of this, unless action is taken to offset it, is greater instability of farm prices, due to the ineffectiveness of price changes in influencing the level of demand. We hope that the Commission will attempt to estimate the trend in marketing margins for the future and the possible effect on the stability of farm prices. How far is increased service in the way of packaging, pre-cooking, and other forms of preparation and advertising likely to inflate margins in the future?

21. Already retail price inelasticity is considerable. At the same time increasing levels of cash costs make the farmer less and less well equipped to survive extreme price fluctuations. These facts are in part the causes of the farmers' determination to find some means of offsetting this tendency to price instability, and the likelihood of a strong future trend to increased margins would serve to further strengthen this determination.

The Role of Cooperative Enterprise.

22. It is, we are sure this Commission



appreciates, part of the basic philosophy of the Canadian Federation of Agriculture that the cooperative organization of both producers and consumers in the purchasing and marketing of food products is one of the best and surest ways to keep marketing margins to a minimum. Many of our members are cooperative organizations, and a number of them have submitted evidence to this Commission. We are not, in this presentation, going to enlarge on this subject because at these Hearings the significance and fundamental soundness of the cooperative philosophy are very adequately discussed in the brief of the Cooperative Union of Canada. In addition a number of cooperative organizations have presented evidence of the contribution they are able to make to the reduction of marketing margins. We wish, however, to emphasize that:

1. The objectives of cooperatives are fundamentally different than those of private profit business. Cooperatives are formed to maximize service per dollar spent. The objective of profit business is to maximize profits, which may or may not result in maximum value to the consumer at minimum cost, depending on the circumstances.

2. Cooperatives, like marketing boards, have an important value in that they result in increasing the producer's (or consumer's) under-



standing of the business in which he is co-operatively engaged. They also give him a knowledge of and insight into the wider economic field of which his cooperative business is a part. The value of this kind of training and education in a democracy such as ours can hardly be overestimated.

23. Since cooperation is built on the education of people to the need for helping themselves cooperatively, it is clearly of great importance to the cooperative movement to have as full information as possible about this subject of marketing margins: not only whether they are excessive, but what goes into them, and what costs and services might without loss of real utility be cut out.

Marketing Boards.

24. Reference has been made before this Commission to the danger to the consumer inherent in producer marketing boards as a result of their powers of control and regulation. No doubt such an argument has a certain plausibility when it is stated in a purely theoretical way without reference to the actual facts of the situation. When these facts are considered, the plausibility disappears. We would like to make this very clear. The safeguards to the legitimate interests of the consumer that exist in connection with marketing boards are as follows:

1. The public or consumer interest is basically



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protected by the power of the government to prohibit any particular marketing board action or any marketing boards whatsoever. No government in Canada, federal or provincial, has suggested or does suggest that the public interest is threatened by such boards. The controversy, where there is controversy, is largely related to the question of where the best interest of the producer himself lies.

2. The variety of alternative food choices open to the consumer make it more than unlikely that even if they wished to do so, which they do not, producers of any product could succeed in combining so effectively and comprehensively as to raise prices above levels that represent a legitimate return to the producer for his labour and investment.

3. Agriculture's problem (or rather one of its basic problems) is that its ability to produce is, through fast-rising increases in productivity, constantly outrunning the rise in the demand for its products. Under these conditions there is keen world competition and keen competition between farmers at home for food markets. Farmers themselves would not countenance action by groups of producers in Canada which made them a privileged class within agriculture -- even if this could be done, which as we have said is unlikely in the extreme.



25. Marketing boards are of course set up to try and obtain for the producer a better and more stable return for his product -- one that as nearly as possible represents a fair return for labour, skill and investment. They may attempt to achieve this objective by:

1. Bargaining more effectively with buyers of the farmers' produce. This has the double aim of ensuring fair treatment to all producers, and of obtaining the full price that the market justifies -- in other words, of reducing the spread to a minimum. This is in the interests of consumer as well as producer.
2. Ensuring that the product moves to market in a more orderly way. The result of doing a good job in this respect is likely to be a more plentiful supply and a more uniform price to the consumer, and reduced marketing margins overall. Here again the consumer stands to benefit.
3. Improving the actual physical handling, processing, packaging, grading and marketing of the product. Here again the consumer benefits as well as the producer.
4. Finally, some marketing boards, and other forms of regulated marketing, can attempt through contractual arrangements and marketing quotas to prevent excessive production of the product, and in this way prevent excessive price declines.



In cases where this effort is successful, the consumer may, indeed, pay temporarily somewhat more than he otherwise would have done. But for the reasons mentioned earlier it is unlikely in the extreme that the increased returns to the farmer will exceed fair and reasonable levels and the firmer price may well encourage expanding output in the consumers' interest.

26. To relate this matter again to the Commission's terms of reference, we submit:

1. That increasing marketing margins make more urgent the farmers' need to put the marketing and production of his product on a more orderly basis -- and one of these ways is through marketing boards.
2. That most of the methods by which producers use their boards to try and improve their position involve the narrowing and stabilization of price spreads -- both of which results are in the consumer as well as the producer interest.
3. That comprehensive information on the costs, marketing practices, and consumer preferences that go into the forming of the marketing margin can be of immense value to producer groups in helping them think through to better ways of developing marketing board operations and services, and to solutions of their problems.

Vertical Integration and Contract Farming.

27. There is of course a very great deal



of interest and discussion these days about the subject of vertical integration, and the contract farming that is one type of integrating arrangement. We define vertical integration this way: there is some degree of integration takes place whenever contractual arrangements are substituted for reliance on the open market for buying and selling. The degree of integration involved may of course be very small, quite comprehensive. Integration is most often referred to in connection with the development of production and related marketing contracts in the poultry and other livestock businesses, but it is of course already practised to some degree by producer marketing boards who enter into contractual price and production or marketing agreements with processors on behalf of their members; or who through agency operation similarly integrate the production and marketing ends of the business to some degree.

28. There are in this connection several questions which need answering and are proper matters for inquiry by this Commission. One of the important incentives to contract farming and other forms of integration is thought to be the efficiencies that result from uniformity of quality, regularity and certainty of delivery of the product, and the corresponding ability to serve modern chain retail outlets. The phrase 'specification buying' is also



heard in connection with the thought that there are real economies to be achieved from rationalization of the machinery of production, processing, distribution and retailing. In many ways this is very much like what the farmer has always meant, but perhaps seldom achieved as he would like, by the term "orderly marketing". In any case the thing is respectable now, under the name of vertical integration and the trend is hailed by some authorities as signalling a major revolution in farmer marketing. It would be very valuable we think for the Commission to try and assess as far as it can the scope that exists for achieving efficiencies through rationalization of marketing in various products. This is another way, of course, of asking -- can price spreads be reduced by streamlining our marketing and production system?

29. On the other side, the Commission should consider whether, if concentration of control of production and marketing in private hands should take place through contract farming, there is not a danger of serious loss in the bargaining power of the producer, with resulting increase of the spread at the producers' expense, and possibly the consumers' also. Farmers feel this is a real danger, and increasingly cooperative organizations are entering the field of contract arrangements, in order to keep control in the producers' hands.



30. Looked at in the broadest perspective, this is a huge subject and a very vital one. If limitations of time do not permit the Commission to go as far as it would like in assessing the trends and prospects that exist in this regard, we hope that it will make strong recommendations that the work of research be continued and increased.

What Establishes The Marketing Margin?

31. On page 26 are to be found three tables on marketing margins taken from the August issue of the Economic Annalist. We appreciate that these figures can hardly be said to be new to this Commission. They have been quoted extensively in other presentations. We wish to refer to them however and draw to your attention a few facts we think are the sort of things that demand careful examination and explanation.

32. Table 1 shows not only that from 1949 to 1957 marketing margins increased by 40 per cent, but that, even more startling, between 1956 and 1957 these margins increased by 8 per cent. We think the change in these years would be a good test case. Between these same two years the general wholesale price index went up by less than one per cent, the total consumer price index went up about 3 per cent, and farm prices of agricultural products went down by a little over two per cent. What is more, wages and salaries in Canada went up by only five per cent.



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Why in this period of relative economic stability in the non-farm economy marketing margins should take the second largest jump that they have shown since 1949 is difficult to understand, and an analysis might well yield very significant findings.



33. Table 2 shows some similarly disturbing things. For instance the marketing margin for pork went up, per pound, a full 6.9 cents from 1956 to 1957. This is surely a remarkable increase. In the case of beef we see that the highest margin in cents per pound for the years 1949 to 1957 was in 1952, the year beef prices dropped and foot and mouth struck. For two later years, 1954 and 1955, the margin was maintained at between $4\frac{1}{2}$ to 5 cents per pound below the 1952 peak. These are very significant differences that mean a lot to whoever has to pay them. At what marketing levels did these sharp changes occur, and why?

34. We would like to know why, if half pound packages of plain process cheese could be processed and marketed for $21\frac{1}{2}$ or $22\frac{1}{2}$ cents in 1956 and 1957, it should have cost from $23\frac{1}{2}$ to nearly 25 cents from 1952 to 1955. If such a reduction is possible at one time it may be possible again. Two or three unnecessary cents on a half pound of cheese could well be described as 'excessive'.

Again, one wonders why the margin on canned tomatoes has gone up from 16.1 to 24.4 cents between 1949 and 1957, and yet with canned peas no such increase has taken place. Indeed in 1956 and 1957 a significant decline in the margin on canned peas took place.

35. In the case of potatoes the margin



varies greatly, as perhaps might be expected in a product whose price is so volatile. But the figures of the four years 1954 to 1957 show the margin for a 10-pound bag varying all the way from 20.5 cents to 29.4 cents. It would be of very considerable usefulness to know, leaving speculative influences aside, what a reasonable marketing margin is for a 10-pound bag of potatoes.

36. We think it is apparent from the figures in the Annalist that, where in a product farmers are subject to considerable price stability, marketing margins also tend to be erratic -- not only in percentages, which one would expect, but in cents per unit. Also these variations are of a size to be really significant. We need to know how these variations occur, and to what extent, overall, they are rendered needlessly and excessively high by the very instability of the producer market.

37. Looking at the figures for fluid milk and butter, which are not only uniform but have increased relatively little, one is very tempted to conclude, as has been observed by other groups, that the consumer and producer pay a high price in excessive price spreads when a farm product is afflicted with a high degree of price instability. In any case it is clear that we have, in this matter of price spread variations, much that needs analysing and explaining.

Price Spreads In the Meat Business:



We have mentioned in this submission various matters relating to meat, but special note should be made of the importance that we attach to an analysis of conditions and trends in livestock processing and marketing. Pork and beef are basic items in the consumer budget, and also of course in the farm economy. At the same time there have been important developments in the fields of processing and retailing of these products.

One matter which may very well be of some importance is the trend in the relation of retail prices of the various cuts of meat, and the significance of developments in processed meat. With rising living standards it seems to us very likely that an increasing number of people will expect normally to buy the better cuts of meat. There is of course a trend to production of a higher proportion of red and blue brand, and standard brand beef, and this will probably continue. Yet at the same time there are and always will be only so many steaks and rib roasts in a carcass, and total meat consumption will need to continue to utilize the whole beef carcass. We would expect that this would mean a trend, on the one hand, to widening price spreads between the higher and lower priced meats, and a corresponding economic incentive to the increased use of specialty meat products.

These, and other aspects of trends in beef



processing and merchandising need to be carefully analysed, and I would interject that the consumer made aware of their significance and the existence of these trends. What, for example, has been the effect on retail prices of beef per pound, of increased trimming of retail cuts? To what extent has such increased trimming taken place? Is the common chain store practice of advertising that they sell only red and blue brand beef making for satisfactory expression of consumer preference in the market, and what are the effects of this practice on farm prices of different grades of cattle?

In the case of pork, we would ask the question: what range of quality differences is found in pork sold at retail, which are not reflected in price differentials to the consumer?

When are Margins Excessive?

38. What is an excessive marketing margin?

The simple answer is that it is excessive if it is higher than it need be under existing conditions of technology, and in relation to the real services received by the consumer. This raises several points.

39. In cases of such things as added costs through premiums, stamp plans, special brands and packaging, "built-in maid service" and so on, it can be argued by those in the retail and processing business that these costs are justified if they can be shown to pay in the competition for the consumers'



dollar. We do not think this should be accepted as a final argument. We think the Commission should ask itself the question whether, in its opinion, such added costs represent money wisely spent. There may, in some of these things, be room for a regulative role to be played by government. In other cases where regulation is not feasible, public education can be of great use.

40. In a chain store in Ottawa not long ago it was possible to buy very good old cheddar cheese, all very decently packaged, at prices per pound ranging all the way from 59 cents to approximately \$1. We think that the causes of this wide range of prices, and the nature of the quality differences that may be represented by it, or may not be, are a proper matter for investigation, analysis, and finally, consumer information.

41. In connection with premiums and sales promotion generally we throw out the suggestion that one simple, and useful law, that could be passed in this country, applicable to food merchandising as well as other kinds, would be to ban, unqualifiedly, the use of the word "free" in advertising or on packages. We think this would make a contribution to rational merchandising in Canada. The consumer does not or should not expect to get anything free from business and we fail to see why misrepresenting anything as "free" should be permitted.



42. The Commission might well consider making a judgment as to how informative and instructive are figures, sometimes widely advertised, regarding the profit margin realized by food companies per dollar of sales. The 1958 Annual Report of Canada Packers, for example, makes the following points: that on its livestock operations it returned the producer 78.01 per cent of total sales, and retained a profit of .54 per cent of sales, or 1/6 cent per pound on total sales. Then we also see that Co-operative Packers of Ontario show a return on their sales dollar to the producer of livestock, before dividends, of 4 per cent more than Canada Packers showed -- or 82.28 per cent. In addition they paid a dividend of .55 per cent of sales and still had a net profit of .57 per cent -- not too different from the Canada Packers' figure, though in that latter case it is after payment of income taxes.

43. Then we find that retail food chains show net operating profits in 1955 of 2.95 per cent of sales -- considerably higher than the packers, and at retail marketing level we should think that one per cent on sales represents a greater spread per unit of farm produce than the same one per cent profit at processor level. Yet two to three per cent does not sound excessive, considered offhand.

44. By contrast, with these percentages of one-half of one per cent to three per cent, we refer



again to a one-year variation in the total marketing margin for pork of nearly 7 cents -- which runs into a percentage on sales exceeding 7 per cent by a healthy margin.

45. We do not wish in this presentation to draw any hasty conclusions, either between packers, or between packers and retailers. Nor do we question the accuracy of the figures we have quoted. What we do suggest, however, is that figures of this kind need analysis. Do these published figures of percentage profits on sales show anything useful about the size of price spreads, and whether they are excessive, and if so just what? What do they not show that is relevant? What significant variations in margins between products and overtime may be submerged in these profit margin figures?

46. Let us suppose purely for the sake of argument that packer profits overall are at a level which no reasonable man would consider excessive. Let us suppose further that the same thing is assumed of retailers. We submit that even in these circumstances it may be that these overall averages conceal very substantial variations in margins from one time period to the next, and from one product to the next. A margin may be excessive overall. It may also be excessive in relation to what an individual producer receives for his product at a particular time. These considerations should be given very serious attention.



We have called attention to Canada Packers' figures quite justifiably we think because they are given very wide publicity annually throughout the farm press. They are admittedly impressive figures, but it is also true to say that in the Canadian Federation of Agriculture frequent expressions of skepticism are heard respecting the validity, not of the figures as audited accounts, but of the validity of the conclusion which apparently it is intended to be drawn from them: that in this country the farmer has nothing to worry about as far as getting a fair price from the packers is concerned.

47. Excessive spreads may, and probably do, exist in some food processing and marketing fields as a result of excess plant capacity and duplication of facilities. We do not believe an investigation into the extent and causes of marketing margins can neglect this important aspect of the problem. The fluid milk distributing business is of course one field in which it is widely felt -- as already submitted to the Commission, I believe -- that real economies are possible by way of adjusting price differentials as between store and wagon sale; encouraging the use of larger containers, and the elimination of duplication in milk routes. Parallel investigation of marketing and processing in other products is equally indicated.

48. Another way to get at the question of whether spreads are excessive is illustrated very



strikingly, we think, by the figures on processing margins for manufacturing milk submitted by the Ontario Federation of Agriculture. The OFA pointed out variations in the spread for different milk products that appeared to have little relation to real cost differentials. This kind of comparison can we feel be a fruitful method of inquiry into whether excessive spreads do or do not appear to exist.

Transportation Costs.

49. The Canadian Federation of Agriculture will be particularly interested in the Commission's investigation of how rising transportation costs have affected marketing margins. It will not be news to the Commission that we are extremely concerned about the progressive general freight rate increases that are being applied for and received by the railways in this country. We believe an increasing distortion of the freight rate structure is taking place, with a disproportionate share of the burden being taken by the farmer. This is a vital matter of public policy, and the Commission's findings will therefore be of **vital** interest to us.

Continuation of The Commission's Work.

50. When the Commission has finished its task and made its report, it is certain that it will have made a very substantial contribution to the understanding of the workings of our food economy in Canada. Yet we venture to predict that in a great many of its



lines of inquiry it will find that it has been able only to make a good start. At the same time we would expect it will have obtained a clear and systematic picture of those areas in which our knowledge remains inadequate, and of the kind of research, both economic and technological, that can contribute to improvement in our marketing system, operate to reduce spreads and give better service for money paid.

51. We hope, therefore, that the Commission will consider that one of its major responsibilities, in presenting its report, will be to present carefully considered and detailed recommendations for the carrying on of the work it will have well started. The interest and response which the Commission has called forth in its hearings convinces us that the people of this country, both farmers and consumers, would welcome continued attention being given to this question of food price spreads from now on.

52. In view of this the Canadian Federation of Agriculture recommends that an agency be established with authority, broadly speaking, to carry forward on a continuing basis the work of research, inquiry and public education concerning the food industry that this Commission will have begun. We suggest such an agency might be called the Food Research and Information Council. Such a council should have funds for research, and should also utilize the regular research and statistical services of



federal and provincial governments, and of industry. It should be supplied with adequate funds for publication and dissemination of information, findings, and objective advice on: consumer buying quality improvement, improvement of marketing methods, and trends and developments generally in the food industry. Price spreads and marketing margins would of course be regularly published by it. The work of such a Council would be aimed at positive improvement in food marketing methods, more informed consumer buying, and in general public education in this vital area of our economic life.

53. The Council should, we think, have as independent a status as possible, although financed by the government and under the final authority of the Minister of Agriculture. It should be guided in its work by a truly representative board or advisory committee.

54. It should be within the province of such a Council to conduct, finance and promote research in, for example: the adequacy of grade and quality standards of particular food products; food wastage in our marketing system; the pattern of retail price movements and their relation to farm prices; efficiency and cost of methods of packing, merchandising, and advertising, and consumer acceptance of those methods; the proportions of the total family food bill that are devoted to various classes of food items -- as condiments,



staples, specialties, meats, fruits, vegetables, and other classifications; consumer buying habits; the cost and usefulness of the sale of multiple brands of similar food products; the economics, to the industry and to the consumer, of new packaging methods and "built-in" maid service.

55. In the light of its work the Commission could certainly give these thoughts a more precise form. We hope that it will give the proposal its very serious consideration.

Commission Recommendations.

It would perhaps be worthwhile to look for a moment at the question of what is open to the Commission in the way of recommending "appropriate action" where spreads are found to be excessive. It seems to us that the following are the areas in which action may well be recommended by the Commission:

(1) If there is evidence brought out in the course of the Commission's investigations which indicates the existence, or, perhaps more correctly, indicates the possibility of the existence, of combinations in restraint of trade or advertising and promotion practices banned by law, the Commission should give such evidence the fullest possible discussion in its report. In the case of questions of restraint of trade, it is of course true that investigation by the Combines Branch is most often carried out successfully where no advance information that the industry is to



come under investigation is released. We are subject to correction on this point, but we think that should the Commission feel it sees reasonable grounds for suspecting combination or illegal trade practices in some instances, it could very properly alert the Combines Investigation Branch immediately, without waiting on publication of its report.

(2) We have suggested the establishment of a Food Research and Information Council. We have also made one proposal for the banning of the word 'free' in advertising. Other legislative recommendations may arise out of the findings of the Commission.

(3) Where the Commission feels that there is room for improvement in any section of the industry it should fully set out its views. Even when no specific legal, regulatory or legislative action seems feasible or proper the Commission should not hesitate to call attention to any instances in which it believes that by better marketing methods, rationalization of distribution, elimination of waste, improved processing techniques or simply more ethical behaviour on the part of business the size of the marketing margin can or should be reduced. It should also not hesitate to indicate costs which, in its opinion, may be commercially successful but make little contribution to the real value received by the consumer.

(4) The Commission should assess as far as it can the needs for research aimed at: informing



farmers, processors and the public about the industry, the way it works, and the problems it faces; improvement of marketing and distributive methods; improvement of physical handling and technology.

(5) Broadly speaking, this question of information and education is embraced in our recommendation for a Food Research and Information Council. We would draw specific attention to the inadequacy of data about prices, costs and margins in the food industry. The Commission's work will lay a foundation for the development and continuation of adequate information services in this field, and the opportunity should not be neglected. We would like to take this opportunity also, of putting in a special plea for issuance by the government of a good periodical publication devoted to agricultural prices. Agricultural prices are available scattered over many publications today, but a single one devoted to this specific purpose is very much needed so that this important information may be readily available to the many persons who need it and would make use of it. The importance of prompt publication of prices so that an up-to-date picture may be obtained is also very great.

We wish to thank the Commission for its attention, and we wish it well in doing the important job assigned to it.

Table 1 -- Indexes of Retail Food Prices, Marketing Margins and Farmer's Shares, 14 Selected Agricultural Commodities (1949 = 100), Canada 1949-57.

Year	Retail Food Prices	Farm Prices	Marketing Margins	Farm Share of retail cost
1949	100.0	100.0	100.0	100.0
1950	101.5	101.0	103.2	98.9
1951	115.6	115.4	113.2	100.4
1952	118.2	108.6	127.1	94.6
1953	113.1	102.3	126.1	92.6
1954	110.3	97.2	126.2	90.9
1955	110.8	97.2	124.5	91.4
1956	112.1	96.8	129.7	88.0
1957	116.3	98.2	140.3	85.1



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Table 2 -- Average Annual Marketing Margins, 14 Selected Commodities, Canada 1949-57

Commodity	Unit	1949	1950	1951	1952	1953	1954	1955	1956	1957 ^a
					cents per unit					
Wheat flour (b)	lb.	3.7	4.0	4.3	4.5	4.5	5.5	4.6	4.9	5.2
White bread (b)	lb.	7.7	8.1	9.4	9.9	10.0	10.7	10.7	11.5	12.3
Beef, blue brand	lb.	18.4	20.1	21.6	29.0	26.7	24.1	24.4	25.3	28.1
Pork (c)	lb.	21.2	21.5	24.1	24.1	26.9	30.2	27.4	27.5	34.4
Chicken (c)	lb.	25.7	23.5	27.8	26.2	29.5	30.0	23.1	26.2	24.4
Eggs, A large	doz.	11.2	12.4	14.1	15.2	15.8	15.1	15.1	16.2	17.4
Fluid Milk	qt.	7.9	8.2	9.1	9.8	9.5	9.9	9.9	10.1	10.7
Creamery butter	lb.	15.3	15.1	14.2	15.5	14.8	14.4	14.6	14.5	14.9
Cheese, plain process	$\frac{1}{2}$ lb. pkg	19.0	19.7	21.0	24.8	24.1	23.4	24.0	21.5	22.6
Potatoes	10 lb.	18.2	18.1	17.8	26.4	22.3	20.5	27.5 ^d	29.4	23.9
Canned peaches	15 oz. tin	15.4	15.5	17.1	16.9	17.9	15.5	16.7	16.3	18.1
Canned tomatoes	28 oz. tin	16.1	14.1	19.0	23.8	19.2	16.8	20.3	22.3	24.4
Canned corn	20 oz. tin	16.2	14.8	15.8	16.7	15.2	14.8	15.8	15.5	17.5
Canned peas	20 oz. tin	14.6	14.2	15.2	16.6	16.0	16.8	16.3	13.5 ^d	13.3

a Preliminary

b Based on domestic price of wheat, in store Fort William-Port Arthur less marketing charges from farm to Fort William-Port Arthur

c Method used subject to revision

d Revised



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Table 3 -- Farmers' share as a Percentage of the Retail Price, 14 Selected Commodities, 1949-1957

Commodity	1949	1950	1951	1952	1953	1954	1955	1956	1957 ^a
Commodity				per cent					
Wheat flour ^b	49	46	42	39	41	35	38	37	34.3
White bread ^b	23	21	18	16	17	14	15	14	12.5
Beef, blue brand	64	67	71	62	57	58	59	57	54.0
Pork ^c	62	61	61	55	56	53	50	51	47.9
Chicken ^c	56	58	58	56	54	55	58	51	52.6
Eggs, A large	82	78	80	74	77	73	76	74	68.8
Fluid milk	56	55	54	54	54	53	53	52	52.2
Creamery butter	76	75	79	77	77	78	77	77	77.3
Cheese, plain process	35	32	35	27	27	28	27	37	36.5
Potatoes	48	45	49	61	43	45	41 ^d	41	43.0
Canned peaches	26	23	21	22	21	22	21	24	23.9
Canned tomatoes	20	21	18	17	21	22	21	18	16.3
Canned corn	15	15	14	15	18	17	17	17	15.3
Canned peas	17	18	19	19	20	20	21	20	19.4

- a Preliminary
- b Based on domestic price of wheat, in store Fort William-Port Arthur
- c less marketing charges from farm to Fort William-Port Arthur
- d Method used subject to revision
- Revised



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THE CHAIRMAN: We will adjourn for ten minutes and then ask questions.

---Short recess.

THE CHAIRMAN: First of all, on page 4, the first paragraph, just as a matter of clarification, the income of farmers, that would cover income of farmers as far as agricultural products are concerned?

MR. KIRK: Yes, from farming operations.

THE CHAIRMAN: Now, on the marketing board question the Commissioners do not wish to ask any questions due to the fact that it is actually under review by the Ontario Provincial Government. As you are aware we have heard a lot of briefs on agriculture since the start of the hearings and many of the points have already been discussed so questions will be on new angles you have raised.

May I say that the Commissioners are impressed with your recommendations at the end of the brief and will take them into very serious consideration.

Dr. Drummond, have you some questions?

COMMISSIONER DRUMMOND: As the Chairman has just indicated, I see very little need for much questioning on this particular brief, for two reasons: one, because most of the points raised are either self-explanatory or they have been repeated to us basically at various times and places. The other reason is that



your organization and personnel are next door, which is very convenient, so we can, if necessary, get the necessary clarification at leisure. However, there are one or two points perhaps that I might mention.

I do not think any place in the brief have you made absolutely clear or actually referred to the fact at all, the distinction between the spread problem considered from the short-run point of view or the point of view of the last few years, on the one hand, and from the long-run standpoint, a continuing situation. We are all aware, of course, that the widening of the spread in the last few years has been a matter of particular concern and that it is natural to put a lot of emphasis on that, but in view of establishing your major recommendation I am wondering if you care to comment in regard to this distinction and particularly the importance in your view of the continuing long-run policy?

MR. KIRK: Well, I think perhaps it is evident from what we have said that the short-run problem we would recognize very freely and is to a considerable degree a problem that lies in the field of the rate of agricultural production related to the demand for farm products. We think in some respects, which perhaps are not adequately explained here, that this condition, the problem created in this way, is aggravated by the tendency to rising spreads and the solution to the problem is delayed by the rapidity with which the



margin available for increasing spreads without increasing the consumer's price has been filled and that this will have delayed considerably the period of readjustment for agriculture, and this is a serious problem. That in part is the answer, at least, to the long-run question.

With increasing spreads we believe, first of all, that in so far as the spreads increase that the services attached to food are increased, that there may be a tendency to substitute services for food on the part of the consumer, which, of course, reduces the overall demand for farm products.

Secondly, we think that the increase in elasticity of demand for farm products which result from the increased spread is a serious problem with implications for farm marketing.

COMMISSIONER DRUMMOND: Yes, the reason I mention this is this fact, that we have been told at least a few times that in the case of the long-run that the widening of the marketing spread was an inevitable accompaniment of our incidence of a higher standard of living and that fact alone seems to me to make it necessary to do some studying of this spread problem over the long pull. I just wondered if you would like to include that?

MR. KIRK: Absolutely, and I think that this assumption should be looked at very critically. I mean, there are different elements in the problem. Some of



them may be considered more inevitable than others.

COMMISSIONER DRUMMOND: Well, now, my other point arises from something that you said in your paragraph 5, on pages 2 and 3, and I think from the standpoint of the Commission it is a very important point, and it is purely a matter of clarification. Take the sentence at the top of page 3:

"If, however, the Commission was to adopt this point of view, it would fail to take into account that the 'extent' of the spread, considered as a portion of the total price which the consumer pays, is determined by the return which the farmer receives, as well as by the amount added to the producer price ---"

Now, I take it this point, under our Terms of Reference we are asked to examine the extent and causes of this spread, and I am wondering if your interpretation of that is this: that in order to measure the extent of the spread we must know where the two points which are separated by this spread are located. One of those points being the farm prices, and I am wondering if you wish to imply that we have to study that farm price and its determination sufficiently to decide why it is located where it is?

MR. KIRK: Well, yes. I do not think that we were taking the position that this Commission's Terms of Reference included a comprehensive study of the farm policy problems, but our point was really twofold: first of all, we think it is, as I said,



significant that the figures so far published on the spread are in percentage terms and not in absolute amounts, and on your own chart you see it is percentages. That is the relation of the two. It is recognized, I think, in the minds of the farmers and the minds of the consumers as significant, and this is something we think needs to be spelled out. That is the first point.

The second point is that the spread itself -- we have the size of it and the trend in it as direct reflections, but they are not the only factors. They have direct reflections on the demand at the farm level for food and the problems of adjustment of supply and demand and the like are the supply of farm products. Those are the two aspects of it.

COMMISSIONER DRUMMOND: According to this chart, farm price is the bottom line. Now, if the spread did not exist those two lines would be together?

MR. KIRK: That is right.

COMMISSIONER DRUMMOND: And I suppose concretely what I am asking you is whether you feel that we have to examine in detail the various factors which may be responsible for that bottom line being exactly where it is?

MR. KIRK: No, I would not say I would examine that in detail. I would say only enough to define the nature of the problem as it affects public opinion, first of all, and secondly, only in so far as



the spreads bear on it.

COMMISSIONER DRUMMOND: That is the point I want to get. I think that is all.

COMMISSIONER KIDD: On page 6, under the item "Costs of Food", you say:

" . . . the people of this country are paying a smaller proportion of their income for food... " What is your reference for that statement?

MR. KIRK: We used the figures in another publication recently in a statement of ours, that the proportion has fallen since 1949 from 26.3 per cent to a little over 23.3 per cent. The references are the national income and the personal income expenditures' total and the expenditures on food products. I am sorry, I should, of course, be able to give you that more exactly, but those are the sources.

COMMISSIONER KIDD: I believe we were under the impression that the percentage had remained fairly constant in recent years.

MR. KIRK: Well, I would be very willing to check that and I will give you an account of it.

COMMISSIONER KIDD: We have had quite a number of discussions, of course, about similar aspects of this particular question and I would like to get your position more clearly on that. On page 7, paragraph 16, you say:

"Do consumers expect to get their food too cheap?"



And further down you say:

"It is cheap when judged by the rising level
of food purchases . . ."

Can you explain what you mean by that?

MR. KIRK: Well, we mean that -- of course,
the word "cheap" is perhaps a somewhat loaded word, but
we mean that if the amount of food purchases per capita
can go up that at least it is the same point as before
-- if the consumer can buy more with his income and
still pay not a greater percentage but perhaps a
lesser percentage of his income for the food it can
hardly be considered -- put it the other way -- it
can hardly be considered becoming more expensive. I
mean on the basis of that measure at least it can be
considered to be declining in cost because they are
getting more product and spending less of their in-
come for it.



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COMMISSIONER DRUMMOND: What you are really suggesting is that the fact that since food purchases have definitely risen in your opinion is in itself an indication that food cannot be too expensive?

MR. KIRK: Yes, especially when it is not taking a greater portion of their income. If there had been an absolute shift in consumer demand to the extent that people wanted to buy more of it with their income, I would say that. If that was the general situation I think you would have to look at it a little more carefully.

COMMISSIONER KIDD: On page 9, paragraph 21: "Already retail price inelasticity is considerable." Are you suggesting there that if there was greater flexibility in the retail business this would reduce the farm price fluctuations?

MR. KIRK: If there were greater flexibility in the retail prices would there be -- well, I am suggesting that on the assumption that the margin that the processors and marketers, the intermediate people between the farmer and the consumer -- if on the assumption that they expect and are going to get a sufficient return for their services to cover their cost, then those were more or less fixed and therefore any reduction in retail price must come largely in a reduction in the farm price which will be proportionately much greater.



It seems to me that in that way, increasing the margin makes them have less elasticity in the demand for the farm products.

COMMISSIONER KIDD: On page 11, in your No. 2 item, you say: "Represent a legitimate return to the producer." Can you give us your explanation of a legitimate return?

MR. KIRK: Well, there are a great many measures of legitimate returns. One is the comparison of farm and non-farm income. Taking the entire non-farm sector and taking the farm sector, if the farm sector is making less than the non-farm sector this is inadequate. Another measure is that of a parity formula of various sorts.

The point I am making is that I cannot give you any precise definition of a legitimate return, but what I am saying is that you can make a very good judgment at many times as to that parity, and in our judgment, on any basis of measure where the relative absolute income or parity position of the price to the farmers are less than legitimate in the sense of being fair and ones to be acceptable with equanimity by farmers.

COMMISSIONER KIDD: If you are going to carry that further which industry would you look at in relationship to the earnings to get your measurements; the food, or all industry, or what?

MR. KIRK: To get the percentage of earnings?



COMMISSIONER KIDD: Yes.

MR. KIRK: Well, I do not think that you would look probably at the percentage of earnings as a single measurement. I think what would happen, and what does happen: on the basis of many factors that you arrive at a judgment. I mean my point in that is that supposing we said that your returns to the producer are not legitimate unless the return to capital and labour and on the farm is equal, to say what it is in the petroleum industry, or any industry. You would immediately plunge yourself into enormous arguments, of course, about, for one thing, the fact that the farmer likes to live on the farm and part of his problem is he stays there, and all the considerations that go into the matter of the farm problem with which we are grappling; so I would not say that you could pick out any industry.

We have never, in our Federation, actually made this particular type of comparison, comparing earnings on capital in agriculture as against other occupations as a particular guide to fairness of earnings.

COMMISSIONER KIDD: It has just slipped my mind at the moment, but it seems to me there was somewhere earlier in this submission another suggestion which was similar to this one about which we are speaking now. It should have some relationship to earnings.



MR. KIRK: There should be a fair return to labour and investment and skill.

COMMISSIONER KIDD: I suppose it comes in at page 4 at the top there: "The facts are that in the years since 1948 the income per farmer has dropped some 20 per cent measured by the purchasing power of that income. This contrasts with a rise of some 30 per cent in earnings in industry."

I was tying that in to this question that I asked you a moment ago to try to get some sort of yardstick.

COMMISSIONER DRUMMOND: Would another possible yardstick be a return which would be the result of multiplying whatever your sales volume might happen to be by a price which was a truly competitive price; that is really the result of the supply and demand factor?

MR. KIRK: Well, no.

COMMISSIONER DRUMMOND: Is that a possible measuring rod?

MR. KIRK: It is a possible measuring rod if you assume conditions of marketing policy.

COMMISSIONER DRUMMOND: If you assume that the market in general is one in which you had a highly competitive price condition?

MR. KIRK: Society in general or in this position ---

COMMISSIONER DRUMMOND: If you had a purely



competitive society; one in which your price was extremely competitive, would you not then think of relying on your price indicator as an arbitrator in giving you a legitimate return?

MR. KIRK: Well, certainly on a comparative basis, because if everybody is in the same perfect competitive position, I suppose -- but that is a highly unrealistic assumption.

COMMISSIONER DRUMMOND: I was just wondering if you could jump off from that point?

MR. KIRK: Yes, you could jump off from that point, I quite agree.

COMMISSIONER KIDD: On page 18 you raise the question about whether the consumer's dollar is wisely spent or not, wisely or unwisely. You suggest that there may be a role for the Government here. Are you suggesting some form of control or regulation at government level?

MR. KIRK: We do not have very much specific in mind. We thought there may be things that would become -- in the course of the Commission's work there may be conditions that would be revealed that would seem to lend itself to regulation. The only regulation we specifically suggested is this business about banning this word "free" and we do have regulations by way of health standards, and grades, and misrepresentation advertising.

We did not have any further specific suggestions.



We just want to say that we recognize the possible outcome of the Commission's findings might be areas where it is useful to implement further regulation. We do not have anything further specifically to that.

COMMISSIONER WALTON: May I have clarification of Section 53, coming out of Section 52, on page 23? I noted with interest the Federation's recommendation. There should be a voluntary agency perhaps called the Food Research and Information Council, whose final authority should be the Minister of Agriculture and that while it would be voluntary it should be truly representative on its Board or advisory committee.

In view of the things that you think this Information Council should do, which is to prepare statistical services and publications and dissemination of information to include consumer buying and improvement of marketing methods, it covers the whole thing from producer to consumer?

MR. KIRK: Yes.

COMMISSIONER WALTON: What have you in mind as the component groups? Would it just be from the producer's end?

MR. KIRK: No, not at all. There should be a consumer's representative, and I would think representatives of the major sections of the middlemen, the people who are involved in that.

COMMISSIONER WALTON: What about the fisheries?



MR. KIRK: And the fisheries, of course.

COMMISSIONER WALTON: There is a new department should be created called the consumer department and perhaps there should be a business department in the government, and then probably we would have one over all those to provide this type of information. It was just on the truly representative. You did mean all groups?

MR. KIRK: Yes, I did.

COMMISSIONER MacKICHAN: I have one or two questions in reference to marketing boards, on page 7. You say: "No government in Canada, federal or provincial, has suggested or does suggest that the public interest is threatened by such boards."

Being a party to it perhaps I should not use the word "accessory" or "after the fact" or "before the fact", but they are just not in a very good position to be critical? Governments as such are not in a position to be too critical of marketing boards.

MR. KIRK: Yes. You mean because they pass the legislation?

COMMISSIONER MacKICHAN: Yes.

MR. KIRK: I know that is true. Of course, the passage of the legislation is a measure of evidence in favour of my contention.

COMMISSIONER MacKICHAN: I have one question about the line that has been pretty well discussed by the other members of the Commission -- a fair return



for labour and investment and that sort of thing. On page 12, in the third line: "Obtaining the full price that the market justifies". Now, that has come to us, I think, with a little different phrasing and in a little different way, but it was phrased as "all the traffic would bear".

MR. KIRK: All the traffic would bear?

COMMISSIONER MacKichan: I am just wondering if there was any similarity between those two things, "the full price the market will justify"?

MR. KIRK: Yes, there is a good deal of similarity between them.

COMMISSIONER MacKICHAN: We took in the whole field. It came from the producers at some time. It came from labour on the other side. It came from investors.

MR. KIRK: That phrasing is used there in this particular context, a short-term, not in the long-term production expansion of the industry.



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COMMISSIONER MacKICHAN: Take your marketing boards: I suppose, along with the cold war and who is going to get the biggest and most deadly atomic bomb, surplus food production is the thing today. What contribution are marketing boards making to surpluses? We sometimes hear that. It has been presented to us that that was one of the dangers of a marketing board, that they would make the agricultural climate so comfortable it would make for more production.

MR. KIRK: I think the answer to that is that if this happens, the climate would begin to get less comfortable with increased production.

COMMISSIONER MacKICHAN: I don't think it is a case of "if it happened". It has happened here.

MR. KIRK: It has happened here?

COMMISSIONER MacKICHAN: It has, hasn't it? We have surpluses.

MR. KIRK: Yes.

COMMISSIONER MacKICHAN: Embarrassing surpluses?

MR. KIRK: As a result of marketing boards?

COMMISSIONER MacKICHAN: Oh, that was my question.

MR. KIRK: I don't know of any, myself, which are the result of marketing board operations.

MR. HANNAM: Marketing boards are specializing in orderly marketing. Their members are more



likely to know what world conditions are, and more likely to be acquainted with the fact they are on an uptrend that is not going to be justified in the world market, and, if by that knowledge and by voluntary efforts, they may be able to keep their supply more in line with what the market will take, and they may be more inclined to reduce supply than increase it.

COMMISSIONER MacKICHAN: I would like your comment on this: yesterday, in another brief, we had the statement that the farming community has resisted inspection, grading and promotion. Some of us question that statement, but has the farming community accepted inspection and grading and promotion of certain kinds -- "promotion" means "advertising"?

MR. KIRK: Yes, I think it has, certainly.

COMMISSIONER MacKICHAN: You say "Yes" to the fact that they have resisted?

MR. KIRK: No, it has accepted -- that is the word.

COMMISSIONER MacKICHAN: But it was a negative statement -- "They have resisted".

As a leading farm organization, I was wondering if that was your opinion or your findings?

MR. KIRK: My opinion is certainly that farmers accept the necessity for quality production and the grading of their farm products. Last week the Canadian Federation of Agriculture at its annual meeting passed a resolution to that effect -- I haven't



the text with me -- that increased attention should be given to this very point, as an example of my contention that farmers do support this. Of course, I think the history of grading and quality proving in this country bears that out.

COMMISSIONER MacKICHAN: And you have the participation on the dairy side that they would support a certain type of promotion too?

MR. KIRK: Yes, and the dairy farmers are not the only ones. British Columbia producers have done a lot of that, and some Ontario ones.

COMMISSIONER DRUMMOND: It doesn't necessarily follow you would be prepared to advocate all types of presentday promotion?

MR. KIRK: It doesn't.

THE CHAIRMAN: One previous witness has suggested to us that big retail operators, through their buying power, are in a position to and do use their position to force back prices to the processors and from them back to the farm products. Would you have any opinion on this subject?

MR. KIRK: I would say this is a question that, of course, has been raised. I don't know the answer to that. That is an answer we would very much like to have an authoritative idea on.

THE CHAIRMAN: Well, I must thank you very much. We are much indebted to you for a very interesting brief which will be so useful to the Commission.

MR. KIRK: Thank you.



Submission of
MEAT PACKERS COUNCIL OF CANADA

Appearances:

Mr. J. Whyte	President
Mr. B. S. Manning	Managing Director
Mr. K. Leckie	Secretary

THE CHAIRMAN: We will now hear the brief
from the Meat Packers Council of Canada.

---EXHIBIT NO. 90: Submission of Meat Packers
Council of Canada.

MR. WHYTE: Mr. Chairman, I am appearing here
at this time as president of the Meat Packers Council of
Canada. Mr. Manning is our managing director, and Mr.
Leckie is secretary of the organization. They prepared
the brief, and they will present it.

MR. MANNING: On behalf of the members of the
Meat Packers Council of Canada, we wish to express
appreciation for the opportunity to appear before the
Commission.

The Council is a national organization of the
meat industry and has been in existence since October,
1919. Membership is voluntary and open to any person,
firm or company, slaughtering livestock and processing
meat under the Canada Meat Inspection Act and its
Regulations (see Exhibit A). At present there are
forty-one member plants operating in eight provinces



(see Exhibit B). The membership includes three co-operative firms. A number of the firms maintain branch distribution and sales outlets at major centres across the country.

The functions of the Council are clearly defined in the 'Objects' formulated by its founders and remain unaltered (see Exhibit C). The Council is not involved in or concerned with the financial structure of individual members, nor in any way associated with their business policies and operations. It mainly serves as a liaison body with all other segments of the livestock and meat industry.

The meat processing industry always has been interested in matters affecting the economic well being of agriculture, particularly those having to do with livestock. Undertakings to promote or improve livestock production and marketing, either on a local or national basis, have received the full support of our members, both collectively and individually.

In many instances, processors, through the Council have initiated programmes of primary benefit to producers. They have always stood ready to join with others in dealing with problems of mutual concern. Every effort has been and is being made to provide and disseminate pertinent facts about the industry. Material assistance has been rendered to a variety of programmes, including monetary grants toward agricultural education and research projects.



Cooperation is extended to Departments of Agriculture, through the provision of plant facilities, equipment and technical personnel for the carrying out of studies and experimental tests. Programmes directed by the government to eradicate livestock diseases, such as tuberculosis, are fully supported. Plant facilities are provided without cost to implement the Advanced Registry policy for swine and other studies concerning carcass quality. The industry has joined with producers and Departments of Agriculture in developing grading standards and provided encouragement to quality production through payment of price premiums for the most desirable grades. Programmes to cut down losses due to disease and parasites and eliminate damage to animals from careless handling and improper transport equipment, during the process of marketing, are fully supported.

While many of the activities of the Council have been, and continue to be, concerned with the relation of the processor to the producer and his problems, there has been an increasing demand from governments and other bodies for close industry participation in marketing and merchandising problems. During the last war the implementation of the various measures dealing with meats required an exchange of technical information and assistance from the industry, along with full cooperation and provision of facilities, equipment and personnel. More recently, the industry



has been called upon to assist and cooperate in government programmes for price supports on livestock.

As an integral part of the livestock and meat industry, packers are aware of the responsibility they assume in processing and merchandising livestock efficiently and effectively to provide the greatest possible service and economic benefit to both producer and consumer. By cooperating and supporting various undertakings, along with other bodies, processors have participated in the development and betterment of the industry. In so doing, there has been a free interchange of basic information on the industry.

The Council is unable to submit any data on the industry not already available to the Commission through regular, official channels. Because of long association with various segments of the industry we may be in a position to present some views on the broader aspects of the price spread study as related to the livestock and meat business.

At the outset, may we compliment the Commission on the method and manner of approach to such an important and relatively complicated study. Unlike previous inquiries into the question, voluntary appearances have been solicited in order to gain a broad understanding of public opinion. In addition, and a very significant feature, is the exhaustive research to uncover the facts, which is being conducted by technical personnel of the Commission.



Observations on Marketing Margins for Live-

stock and Meats: As the Commission undoubtedly is well aware, an accurate approximation of even gross marketing margins for livestock and meats presents rather difficult technical problems. The change in form which products undergo after their primary sale is a major factor. The producer markets a meat animal as a single unit, prepackaged by nature. The packer finds within the package some portions of little or no commercial value -- the remaining combination of meat and by-products, with varying amounts of additional value added during processing, are sold at differing periods later, in domestic and export markets. Questions such as grade and quality, yields, shrinkage, by-product values, all complicate the calculation. Conversion factors, indicative of the farm product equivalent per unit of retail product, are necessary.

To date, a start has been made on building up a historical series of marketing margin data for a limited number of Canadian farm products, including beef and pork. One of the limiting factors in these calculations is the inadequacy of wholesale and retail price data. Within the past three or four years the wholesale series has been much improved, although only a selected number of items are covered. Efforts currently are under way to similarly improve the compilation of retail prices.



Margin calculations made to date in both Canada and the United States are based on numerous assumptions which destroy their usefulness, to an extent. A continuing change in the basis used in the past has not been helpful.

Marketing Structure of the Livestock and Meat Industry: The marketing process, as far as the livestock and meat industry is concerned, is a basically three-stage proposition, viz:

- (1) The buying and selling of livestock, which focuses on major terminal markets or public stockyards.
- (2) The sale and distribution of dressed and processed meats by the meat industry into various markets.
- (3) The retail distribution of meat products.

Predominantly the activities of producers, processors and retailers are confined to their own particular economic sphere. Thus, ownership transfers and price determination is involved between each stage in the marketing process. Although there has been increasing reference to the question of vertical integration, the present situation typically is characterized in this country by very little complete economic integration extending over even two stages in the livestock production-marketing process. While there are several cooperative processing plants -- one in Ontario, four in Quebec and one under construction in Nova Scotia -- meat processors by and large have no retailing



operations and retailers do not operate processing plants. In some cases packers, or even retailers, may own or have contractual arrangements with feed lots, but these operations involve a very small proportion of commercial livestock output. Voluntary contracts between producers and processors, or other agencies, are an important aspect of the poultry industry and probably of increasing importance in the case of hogs. We will comment on this development elsewhere in this presentation.

As far as the meat processing industry is concerned, its position, midway between the producer and the retailer, naturally involves it in both the marketing process for meat animals and the wholesale trading in processed products from these animals. Meat processors, not being involved in retail distribution, have no direct part in the determination of retail prices or merchandising policies.

The fact that the livestock and meat industry is diverse by nature, with half a million or more primary production units scattered across the whole breadth of the country and with processing plants strategically located with respect to sources of livestock and main consuming centres, makes for a complex marketing process. The steady economic development of Canada, both agriculturally and industrially, has necessitated a dynamic rather than a static marketing structure.



As the commercial livestock and meat industry developed, along with rail transportation facilities, stockyards and terminal markets were established and became focal points for the registration of livestock values. While in this regard they still occupy an important position, the intensive development of highway transport latterly has tended to decentralize the marketing structure to a considerable extent. Additional processing plants have located in secondary population centres, closer to areas of production. At the same time, secondary markets, such as local auctions and buying stations, have developed. In the main livestock areas, producers have a choice of several alternative marketing channels, viz., consignment to a terminal market or to a local sales barn, sale to a local butcher or direct to a processing plant or buying station. Market information through press and radio assists the individual producer in following market trends. As a result, competition for livestock no longer is highly concentrated at terminal markets but extends right back to the farm or feed lot. The marketing system that has evolved is a result of the producer's free choice of these various alternatives, assisted by modern transportation and communication facilities and other factors.

The tendency has been for livestock to move from farms to processing plants by the shortest, quickest and least costly route. In the case of hogs,



which have been sold exclusively on a carcass weight and grade basis since 1940, the swing over to the so-called "direct" method of marketing has been particularly pronounced. Under sale by government carcass grade, hogs can be readily bought without advance inspection by the buyer. Since hogs are the most perishable of all meat animals in transit, and shrink most rapidly, producers naturally are inclined toward a marketing method which will give most rapid and efficient handling.

It has been frequently, unjustly asserted that the meat packing industry has deliberately, and with ulterior motives, fostered the growth of direct marketing of hogs and other livestock and the resultant bypassing of central markets. The position consistently adopted by the industry has been to stand ready to buy all the livestock producers offer through whatever channels and on whatever basis they elect to sell them. The development of the present method of carcass grading and settlement for hogs evolved over the past 35 years through mutual efforts of producers, processors and government. The expansion of motor truck transportation was concomitant, as well as some considerable decentralization of the pork processing industry. The trend toward direct marketing was a natural result. In areas where voluntary producer livestock cooperative shipping associations have been operating for a considerable time the predominant



practice of such associations has been to sell direct rather than on the central market.

In the case of cattle, for the most part marketed on a live weight basis and appraised by buyers as to quality, yield and other factors, the tendency toward direct marketing has been much less marked than in the case of hogs. On terminal markets, and at local auctions, various classes of buyers compete for available supplies, particularly 'two-way' types of cattle which may either be slaughtered or go back to the country for additional finishing. While most processors will buy cattle on a carcass grade and weight basis from producers who ask for this method of settlement, the industry has not taken any initiative in suggesting any such fundamental change.

As far as major processors (i.e., those included in the membership of the Meat Packers Council) are concerned, competition in procuring livestock, and selling the products therefrom, is the very essence of their business. All any individual processor asks is the ability to compete, on as equitable terms as his geographic location and other similar economic factors permit, with every other buyer for available supplies of livestock. No progressive packing concern would be content to accept any relatively fixed share or allocation of available supplies of livestock simply because any firm's ability to expand its business is definitely limited by its livestock buying department's ability to procure livestock to fill the orders for its processed products.



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The nature of the fixed and variable cost structure of the meat processing industry provides an additional stimulus toward building up volume. Every modern packing plant has a considerable latitude in capacity or throughput which should not be considered in the same light as what is commonly referred to as "excess capacity." Due to the seasonality and cyclical nature of livestock production, packing plants are constantly confronted with changing volume. While certain facilities, such as cooler and freezer space, or available outside storage facilities, impose rather definite maximum limits on throughput, the tempo of slaughtering, dressing and cutting operations can be accelerated greatly as the occasion demands by larger gangs and extra shifts. While some costs rise and fall more or less in direct proportion to output, other costs are relatively fixed. Thus, a plant which is able to maintain a volume relatively close to its optimum, as determined by limiting factors in its facilities, is in a position to operate at a favourable point on its particular cost schedule. At the same time, it can develop and hold its customer connections through the prompt filling of orders booked.

These basic facts alone make for constant and intense competition for available supplies of livestock.

Nature of Competition in the Meat Industry:



The meat processing industry, as it exists in Canada today, is certainly characterized by a vigorous and healthy competition both in buying livestock and in selling the finished products. If one were looking for instances of the type of situation commonly referred to as "administered prices," the packing industry would present about as poor an example as one could find. Prices for livestock and wholesale prices for meats vary constantly from day to day and week to week -- even hour to hour -- according to the generally recognized pattern of competitive markets. There is little or no evidence of "price leadership" tendencies which appear to be characteristic of some industries.

In the modern business world there are few situations conforming to the theoretical model of perfect competition, which requires that the actions of any one firm can have no effect on the market. Certainly no one would contend that the meat industry fulfills this requirement. Even agriculture, long assumed to be the nearest approach to perfect competition, is changing its economic character.

Nevertheless, there are certainly enough firms buying livestock and selling meat in the important producing and consuming areas to ensure strongly competitive prices. At the same time, access to the meat industry, at least on a modest scale, is relatively unrestricted. There are a number of examples



of fairly large meat firms today which were started not many years ago with a very modest investment of family capital. While a modern full-line processing plant represents a considerable fixed investment and requires a good deal of working capital, the outlay still is far less than in many types of manufacturing industries which require elaborate technical installations or machine tools, even to commence operating.

Another factor which makes for intense competition in the meat industry is the relatively limited opportunity for product differentiation. This is particularly true in fresh meats. Except for local variations in livestock quality, one inspected packer has little basic quality advantage over the product of any other. Some differentiation is possible in the degree of trimming, product preparation, packaging and service offered. In the case of processed products, commonly sold under proprietary brands, more differentiation is possible through variations in cure, smoking or cook-room techniques. Comminuted meats and sausage products present opportunities for the use of private formulas and new processes. Meat products with significant quality attributes are those generally featured in national brand advertising.

By and large, however, price appeal is still by far the most potent factor in meat merchandising



at all levels. In the meat industry there is no such thing as 'resale price maintenance' or "suggested retail prices." Being highly perishable, the total volume of meat produced must be sold on the market at prices which will move the entire supply. Temporary surpluses of some types of product can be frozen or canned, but the bulk of the supply has to move into the fresh, cured or smoked meat trade.

The demand for livestock for processing is basically a derivative of the demand for meat and by-products. Regardless of the supply or quality offered, however, packers always have accepted as a basic collective responsibility the clearing of markets as promptly as possible. Then, having bought the livestock in competition with the rest of the industry and paid cash for it, each processor has to turn it into the types of product he feels will move to best advantage and then sell it.

There is, therefore, the strongest possible evidence that factors predisposing toward a naturally keen competitive situation exist at each end of the meat processing industry, and that it is this type of situation which, in fact, prevails.

At this point we would like to comment on an unfortunate statement which appeared in the report of a previous Royal Commission on Price Spreads (1934) and which has been quoted frequently by those wishing to discredit the meat industry.



Referring to two major packing firms, it was stated on page 162 of the report that, "There was uncontradicted evidence given to us by a former official (of one firm) that in Toronto it was the usual practice to arrange with (the other firm) as to the prices to be paid for purchases of livestock." (The testimony referred solely to cattle.)

In actual fact, the verbatim report of evidence offered to the Commission indicates that the testimony of the former company employee was flatly denied by the president of the same company. Testifying under oath on a subsequent day the latter stated, "As to a conference or agreement in regard to price, there is no such thing and never has been in Canada." (Minutes of Proceedings and Evidence, No. 6, page 280.)

In these circumstances it is difficult to justify the reference in the report to 'uncontradicted evidence.' In addition, the president of the other company referred to in the testimony also appeared before the Commission, subsequent to both of the witnesses referred to above, and was not asked by the Commission's counsel to confirm or deny the allegations. This could be taken to imply the Commission considered that too much weight could not be placed on the unsubstantiated, and in fact contradicted, testimony of a single witness. (As a matter of fact, on page 56 of the Commission's Report it was admitted that there was no "direct evidence



of a combination between these companies' -- the same companies previously referred to.

Nevertheless, this 'uncontradicted evidence' has been widely used since 1935 to imply that whole-sale collusion among livestock buyers not only existed but also continues to exist. Yet, if this were true, it is inconceivable that alert and vigilant government enforcement agencies would not have found grounds in the intervening period for proceedings against the industry.

Price Determinating Factors for Livestock and Meats: Price determination is naturally a prime consideration in the ownership transfers which occur immediately before and after livestock is processed into meat. As previously indicated, there is plenty of evidence of the presence of strongly competitive elements in both the purchase and sale of livestock and the selling of meat by processors to the retail trade.

It is sometimes asserted, and with considerable validity, that consumers are a potent force in the establishment of meat prices. It is a fact that consumers exert final "veto" power in deciding what kinds of meat they will buy and how much. In actual practice consumers do not, of course, enter directly into the establishment of meat prices except through the exercise of their veto power when they feel the price of a particular type or cut of meat



is too high; or, conversely, by their volume purchases of items they feel are a "good buy".

Price in relation to the need for a product is a basic factor in consumer motivation. As living standards advance, ideas as to the necessities for a satisfactory living make price considerations of lesser importance. Current demand for more completely processed meat products, in a form which is ready to serve or easily prepared in the kitchen, has widened the spread between the price of the raw material -- livestock -- and the finished product in a processing plant.

These built-in services actually are added values and not an increased operating margin, as is incorrectly interpreted from time to time in price comparisons. The satisfaction the purchaser receives, plus the higher percentage of edible weight in the amount purchased, are the factors which create the demand. Stripped of these additional qualities, the net worth of the primary product from which the item was processed would not be greater, possibly even lower, if sold in an unprepared form by a processor.

Trimming, boning, curing, smoking, cooking and slicing, along with packaging and weighing into consumer-size units, have added to processing costs. However, increased sales have enhanced the price for livestock and encouraged volume production to the



benefit of primary producers.

At the same time, a recent research study by the U.S.D.A. Agricultural Marketing Service (Convenience Foods and Their Cost to Consumers, A.M.S. 267, August 1958) indicates that, all things considered, the net additional cost of convenience foods, compared to the same product in a less highly prepared form, is surprisingly small. For example, a housewife in Washington, D. C., who bought \$100 worth of unserviced foods in December 1957 could get the equivalent quantity of serviced foods for \$100.61 and, in the bargain, she would eliminate much tedious preparation and kitchen overhead.

The continuous market impact through every hour of every shopping day of the sum total of decisions of meat consumers is promptly reflected through the retailer and other meat purveyors to the processor. But does this mean that the livestock producer becomes merely a residual claimant after retail and wholesale margins are deducted?

The answer -- certainly as far as the processor is involved -- must be that this is not necessarily true at all. There is, as a matter of fact, no such thing as a fixed or "normal" margin for any product of the packing industry. Processors have certain overhead and variable costs which they endeavour to cover in their overall operations; but at any specific time, for any particular product or



department, there is absolutely no assurance that costs will be covered and a reasonable margin of profit received.

One reason for this is that in day-to-day livestock procurement operations buyers are instructed to attempt to keep costs in line with current and anticipated values of meat and by-products. But on the market other buyers may, and generally do, have somewhat different price ideas and, as a result, bids may need to be revised frequently to meet competition. In other words, the price which is established in a competitive livestock market is not necessarily what any particular buyer may feel his current sales returns justify. There is the additional consideration of the normal time lag in processing operations, particularly in the case of cured and smoked meats. Actual realization from finished products is often quite different from that anticipated. By-products, e.g., hides, fats or fancy meats, may also change in value and affect the out-turn.

At this point we would like to refer again to the 1934 Commission report. Many times it has been stated that a leading packing company executive testified that the basic philosophy of the industry was "to buy as cheaply as possible and sell for as high a price as possible."

In actual fact, a thorough reading of the evidence indicates that this is a classic example of



both misquotation and quoting out of context.

(Minutes of Proceedings and Evidence, No. 44, page 2534.)

In response to questions on livestock prices posed by members of the Commission the witness stated that, "The price we pay is determined entirely by the outlet that exists. Our duty to the farmer is to work to get the highest price possible all the time for his product."

He then went on to state that, while in every deal the buyer was trying to keep the price down while the seller was trying to hold out for a higher price, this did not imply any unfair attitude or lack of sympathy the one with the other.

During this interchange one of the members of the Commission remarked: 'I do not see why all the witnesses heard at this inquiry have tried to run away from that idea, that they sell as high as they can and (buy) as low as they can. It is a sort of universal trait in human nature.'

One fact which was not adequately developed in this discussion, although it may have been assumed, is that in the market place competition sets definite limits on how cheaply a firm may buy or how dearly it may sell.

The fact is that the beef and provision department managers of packing firms generally try to buy cattle and hogs in line with current cut-out values also taking their costs into account. But the



objective is achieved only by some firms some of the time. Competitive conditions encountered at either the buying or selling end, or both, always are tending to militate against any stability of margins.

The converse thesis, that all meat prices are simply arrived at by adding marketing charges and margins to the price paid for livestock, is equally inadequate. Just as livestock production costs in the short run are not a primary market price determinant, so meat prices at any particular time necessarily bear no close relation to the cost of the livestock from which it was processed.

Over a longer time span, however, the correlation between livestock prices and the price of major wholesale cuts of meat is remarkably close. A recent unpublished analysis by R. G. Marshall (which we understand is available to the research staff of the Commission) indicated that over the ten-year period 1948-57 the relationship between steer and wholesale beef prices at Toronto was remarkably close and consistent.

While it is a trite oversimplification to state merely that livestock and meat prices are set by "supply and demand," nevertheless, constantly shifting balances between the supply of livestock and the demand schedule for meat are achieved through price adjustments. In the short run the market supply of livestock is not too elastic, especially in



the case of hogs. Demand elasticity for meat in total in the short run is rather limited, although for one kind of meat it may be considerably higher. Certainly in intermediate periods consumers switch buying from one kind of meat to another quite freely in response to relative prices. The current increase in pork consumption is a good example.

Considerable emphasis has been placed in some quarters on relative bargaining power between various segments of the livestock and meat industry. The institutional marketing framework and the relative size of firm in each segment are frequently claimed to create gross inequalities in bargaining power. Actually, factors other than bargaining power play an important role in the registration of prices. Short and long run supply and demand elasticities, for livestock and meats, for example, are significant. Both livestock and meats are perishable and must be sold promptly or suffer quality losses. The relative bargaining advantage of sellers and buyers shifts according to the volume available in relation to normal domestic market requirements and alternative outlets. Neither producer nor processor has much latitude in withholding supplies for a more favourable market.

The individual producer, generally with several alternative market outlets available, is not pitted against a single large-scale buyer. By means



of regular markets information channels the producer is in a position to consign his shipments through the most favourable channels, either individually or as a member of a livestock cooperative.

Integration in the Livestock and Meat Industry: The development commonly referred to as "vertical integration" has been recently attracting much publicity and discussion. The reference is commonly to integration through voluntary production-marketing contracts -- not to complete economic integration through outright ownership of associated facilities.

In several lines of production, contract farming has been a common practice for years, e.g. canning crops, sugar beets, etc. Its more recent wide-scale adoption by the poultry industry, with rather spectacular results, has prompted much speculation as to whether similar developments with respect to hogs and other meat animals are to be expected.

In essence, integration by contract amounts to nothing more than advance collaboration between the producer and a second party -- commonly a processor or a feed supplier -- in the production planning and feeding operation. The contracting parties jointly assume production and marketing risks and mutually collaborate in decision making. Instead of the producer individually deciding how much to produce, what type of product, and when to market it



-- then consigning the finished article on the open market when it is ready -- he contracts to produce a certain volume of product to uniform specifications. In exchange for former complete independence of decisions he generally has assurance of a market, a minimum price guarantee, a certain amount of production credit, and is furnished with expert technical advice if required. The more advanced forms of contracts provide an escalator clause whereby the producer shares in fortuitous market advances. He is a partner, not a hired employee.

One of the generally recognized motivating forces in contract integration is the technological advance, both in farming and in marketing and merchandising. The impact of mass retail merchandising has been particularly important. While retailers are not directly involved in integration, the trend toward "specification buying" is reflected through the marketing channels to farm production. When a retail chain store organization in a metropolitan centre decides to feature broilers on any week end, it requires thousands of birds of uniform weight and quality. An integrated programme, with commercial producers, poultry breeders, hatcherymen, feed manufacturers and distributors and poultry processors all coordinating their efforts can be readily geared to the exacting requirements of such mass merchandising. The phenomenal progress and rate of growth



in the poultry industry is closely associated with integration.

Among meat animals, hogs seem to offer the greatest opportunities for integration, although it is by no means certain that developments will proceed as rapidly or as far as in the case of poultry. For a number of reasons the specialized mass production of weanling pigs in hatcheries presents more problems than chick hatching. Risk factors and credit requirements are also much greater in larger meat animals than poultry.

In general, it is fair to state that the processing industry, along with other groups, is viewing integration developments with interest but not necessarily enthusiasm. As long as adequate supplies of livestock are available for purchase by all comers on the open market, it is likely that processors will depend on traditional channels for their main supply. Continuing technological advances in livestock production and marketing, however, make it hard to predict the future.

To the extent that integration does proceed to develop, it seems reasonable to assume that it will result in increased efficiency, highly competitive prices and relatively narrow marketing margins. At least these effects certainly have been evident in the poultry industry.

In this presentation no effort has been



made to present detailed historical or current data on marketing margins or price spreads in the livestock and meat industry. This, as the Commission has wisely concluded, is a task better left to qualified research personnel to thoroughly explore.

From our general knowledge of the situation we are confident, however, that the most careful examination of marketing costs, services rendered and values added as livestock moves from farms and feed lots through the entire processing operation (i.e., from farm to wholesale) is bound to show that the prevailing margins, including profits, are extremely narrow; that a high degree of efficiency exists; and that there is a healthy degree of competition. For this reason the meat industry welcomes this investigation and looks forward to the final report of the Commission with interest.

We have tried to bring out the fact that the livestock and meat industry has a complex and dynamic production and marketing structure. Processing is an integral function of the whole but the packing industry is not in a position to influence or control either the supply of livestock or the demand for meat. The natural result is a highly competitive price structure at both ends of the operation.

As a final point, we might add that industries, in addition to their rising costs of doing business, nowadays are called upon to perform added services



for government. While the desirability of social services and other government measures designed for public benefit may be unquestioned, the fact remains that business increasingly serves in the capacity of government agent without remuneration. Collection of employee income taxes, sales taxes, hospital insurance premiums, workmen's compensation, and so forth, materially add to expenses, over and above the costs associated with normal productive operations. In addition, there is a mounting number of reports to be completed daily, weekly, monthly and annually for various government departments, although in fairness it should be stated that certain of these are of direct interest and value to the industries concerned.



Exhibit A

Basis of Membership

Any person, firm or corporate company operating government inspected plants under the provisions of the Meat Inspection Act of Canada or under provincial government inspection, engaged in slaughtering livestock and the processing of meats for consumption as food, on his or their own account, upon submission of a signed formal application may become a regular member of the Council upon such terms and conditions as the bylaws may provide. Membership must be in the name of such person, firm or company, according to his or their business title. Each firm or company must designate a member of such firm or company who shall be the official representative of the firm or company in all its relations with the Council. Each firm or company shall have the privilege of naming a substitute to act in the place of the official representative.

EXHIBIT B

Members of the Meat Packers Council of Canada, January,
1958

<u>Firm</u>	<u>Location</u>
British Columbia	
Burns & Co. Limited	Vancouver
Canada Packers Limited	Vancouver
Pacific Meat Company Ltd	Vancouver
Swift Canadian Co. Ltd	New Westminster
Alberta	
Burns & Co. Limited	Calgary
Burns & Co. Limited	Edmonton
Calgary Packers Limited	Calgary
Canada Packers Limited	Edmonton
Swift Canadian Co. Ltd	Edmonton
Union Packing Co. (Division of Swift Canadian Co. Ltd)	Calgary
Saskatchewan	
Burns & Co. Limited	Prince Albert
Burns & Co. Limited	Regina
Canada Packers Limited	Moose Jaw
Intercontinental Packers Ltd	Saskatoon
Intercontinental Packers Ltd	Regina
Manitoba	
Burns & Co. Limited	Winnipeg
Canada Packers Limited	St. Boniface
Swift Canadian Co. Limited	St. Boniface
Ontario	
Burns & Co. (Eastern) Ltd	Kitchener
Canada Packers Limited	Toronto
Canada Packers Limited	Peterborough
Coleman Packing Co. Ltd	London
Essex Packers Limited	Hamilton
Essex Packers Limited	Windsor
F. W. Fearman Co. Ltd	Hamilton
First Co-operative Packers of Ontario Limited	Barrie
J. M. Schneider Limited	Kitchener
Swift Canadian Co. Ltd	Toronto
Whyte Packing Co. Ltd	Stratford
Windsor Packing Co. Ltd	Windsor



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

<u>Firm</u>	<u>Location</u>
Quebec	
Canada Packers Limited	Hull
Canada Packers Limited	Montreal
Cooperative Federee de Quebec	Princeville
La Chaine Cooperative du Saguenay	St. Bruno
Legrade Inc.	Quebec
Legrade Inc.	Montreal
Modern Packers Limited	Montreal
Wilsil Limited	Montreal
New Brunswick	
Canada Packers Limited	Saint John
Swift Canadian Co. Ltd	Moncton
Prince Edward Island	
Canada Packers Limited	Charlottetown



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO



Exhibit C

Objects

The Council is organized:

- (a) to provide means of meeting breeders and producers of livestock for the purpose of discussing and taking action on all matters of mutual interest to producers of livestock and packers of meat and its products;
- (b) to cooperate with livestock breeders' associations, farmers' organizations, railways, banks and financial institutions, federal and provincial Departments of Agriculture and all other bodies interested in the development of agriculture;
- (c) to aid in the improvement of the quality and breeding of livestock on the farms of Canada;
- (d) to promote the development of domestic and foreign markets for all livestock and meat products;
- (e) to encourage the study of the arts and sciences connected with the production of livestock, the packing of meat and its preparation as food;
- (f) to make available to the consumer a knowledge of the meat packing industry and its economic value and vital place in the transformation of livestock into food at the lowest possible cost;
- (g) to place at the disposal of the federal and provincial governments information which may be



of service in the solution of problems that arise in connection with the livestock and packing industries.

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THE CHAIRMAN: Thank you very much, Mr. Manning.

Are there any questions?

COMMISSIONER DRUMMOND: I have one or two questions. I do not think this matter was specifically referred to in your brief, but I think you are definitely in a position to give us good advice about it. It has been represented to us that one of the reasons for the fairly recent increase in the retail spread of meat, specifically meat, is the fact that in recent years there have been some very significant changes in the so-called cutting-out practices. We are told that beef, by and large, is sold to the retailers by the processors, after which the retailers do the cuttings out, and that, say, in the last ten years, or thereabouts, retailers have seen fit to cut a larger fraction of the total carcass out and that part of the cut-out goes as waste; in other words, the part of the carcass going as waste is larger than it was previously, the retailers selling fewer pounds of carcass, and therefore in order to get as much total income from a carcass he has to charge a higher price for the pounds he does sell.



Can you give us any indication as to the validity of this?

MR. MANNING: I may say that we have no association or experience with the retail end of the business, and therefore we are not qualified to answer what happens after it leaves our hands. I would say for the most part meats or beefs are sold in smaller cuts than they used to be. I would say from the wholesaler end there has been very little change in the spread within the wholesale end. In other words, the packer slaughters the animal, disposes of the by-products and sells the carcass or sides, quarters.

The practice in recent years for the wholesalers is what has been called the removing of fat. That has been a practice that has come in in the last few years, and to a degree, while that carcass may necessarily sell in cents per pound more, from the standpoint of the overall economics of the operation where those fats are returned in an edible condition at the plant, it is perhaps worth more money.

COMMISSIONER DRUMMOND: Thank you very much.

MR. LECKIE: I think there is one other point which just occurred to me. I think there has been some change with the higher levels of consumer income towards the demand for certain types of what we sometimes call luxury cuts, that is steaks for barbecuing, and it may be in these margin calculations



they don't take the whole carcass; they are restricted to certain cuts in which quotations are available; and it is my opinion, in buying meat, you can pay either a lot for a certain type of meat or you can get a cheaper cut, depending on what you want to sell it at. I think it is quite obvious that the prices at the retail level -- although we are not qualified really to discuss it -- the retail prices for certain cuts have increased over certain other cuts where there is perhaps less popular demand, because the consumers seem to have more money to spend on meat, and perhaps spend it not too wisely as far as economy is concerned.



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COMMISSIONER DRUMMOND: This would somewhat coincide with the suggestion that has been made to us that a change in practice has actually resulted in two types of shifts, first, a smaller part of the carcass going into the more expensive cuts and a larger part is going into the cheaper cuts. Then, secondly, a larger part of the total carcass going into waste as distinct from ---

MR. LECKIE: And more meat being sold in smaller packages is another factor that undoubtedly must have added a little to the packaging costs.

COMMISSIONER DRUMMOND: On page 13 -- this may be a relatively minor point -- but about the middle of that page you are speaking about packing firms, like other businesses, buying as favourably as they can, and so forth, but you say:

"The objective is achieved only by some firms some of the time.

I am wondering if you would not be inclined to agree to this substitution, "achieved by most firms most of the time"? If that does not happen I cannot quite figure out why most of the firms continue to survive.

MR. LECKIE: Well, you have to insert the term element in there, I think, if you are considering the long-term span, certainly as in agriculture over the long-run market prices change and similarly over the long run packers can stay in business, and they must over the long run get their costs back with whatever



margin they need for depreciation and reinvestment and so on.

MR. WHYTE: I think part of this can be explained by the fact that different packers have different accounting practices. Some have one product, others have a different type. One may be a specialist in pork only. Now, in that way a specialist in pork will suffer more than a chap who is only doing 30 per cent business in pork, and I think this should be taken into consideration.

COMMISSIONER DRUMMOND: To the best of my recollection, very few in the casual list are in the rank of packing firms.

MR. MANNING: The inference was all the people are not doing the same thing economically all the time.

COMMISSIONER DRUMMOND: My only point, the only one I will discuss now -- there are many I would love to discuss but this matter is dealt with at the bottom of page 7 and the top of page 8, where you state, and in my opinion quite correctly:

"... the theoretical model of perfect competition, which requires that the actions of any one firm can have no effect on the market."

You do not contend that it is by any means a situation in this industry any more than in others, but then at the beginning of the next paragraph you say:

'Nevertheless, there are certainly enough



Now, if you are going to define competition as competition between an equal number of firms, it is not that, but perhaps we might have to use another word rather than competitive.

COMMISSIONER DRUMMOND: This is very intriguing and, of course, a fundamentally important topic, but the hour is well advanced, so I will not continue now. I think if it would be possible for you to do even more than you have already done in, shall we say, listing these factors which you think make for competitive prices and perhaps also those that make for non-competitive prices, and let us have them, we will be in a better position to see where the balance comes out.

MR. MANNING: We will be glad to do so.

COMMISSIONER DRUMMOND: That is all I have.

COMMISSIONER KIDD: I would like to pick up on page 2 the implications of the point you make there that they provide an encouragement to vary a production through payment of price premiums, two questions there. I suppose that your grading is orientated towards the consumer?

MR. MANNING: No, towards the producer in this case.

COMMISSIONER KIDD: Towards the producer?

MR. MANNING: Yes, that is the reference here.

MR. LECKIE: I think Mr. Kidd means that the



grading of livestock is primarily done with the consumer in mind?

COMMISSIONER KIDD: You say you encourage quality production to payment of price premiums. You are looking after a quality product which you are going to sell to consumers so I say your grading is consumer orientated?

MR. MANNING: To that extent, yes, that with better quality livestock you get a much better out-turn of saleable meat to the consumer.

COMMISSIONER KIDD: And that is what you are looking for?

MR. MANNING: That is what we are looking for, yes.



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COMMISSIONER KIDD: If the grading is consumer-orientated and there is a premium for it, doesn't that premium come out of the retail price eventually?

MR. MANNING: I can best explain that by taking the example of hogs which are graded to the producer on a carcass grade and weight basis, and have been for a number of years, in which case there is a Grade A hog and a Grade B-1 hog, and so on, down the line. For the Grade A hog there is a premium price paid for it over the B-1, which is more or less considered as a good hog -- more of a standard, put it that way. The thing the packer or processor has to contend with is the amount of trimmable product that has to be taken off it to make products which are acceptable to the consumer.

For example, if you buy hogs at so much per hundredweight and you have to trim off a certain percentage in order to make it saleable to the consumer, that percentage which you trim off is not worth as much as what goes to the retail trade, but it has to be taken into account in the price that goes to the retail trade. The net result is that the better the grade animal in the first place the less trimming is necessary, and therefore it is better value. You are working towards sending a uniform product to the consumer, and you have changed the nature of that in the process of removing the outside trimmable fat, in this case, and, in some cases, taking away some of



the internal parts, but that is not possible in all classes of goods. You can do it with a ham, where the fat is on the outside. With the belly cuts that is not possible; you can't change that.

COMMISSIONER KIDD: But the quality is reflected in the retail price?

MR. MANNING: That is right.

COMMISSIONER KIDD: Do you know whether a Grade A hog carcass, a bacon carcass -- there is a premium paid there, but isn't part of that premium paid by the government?

MR. MANNING: I don't want to make this too lengthy an explanation, but I am prepared to do so. The grading of hogs has been done in this country since 1921; by 1934 the system of carcass grade and weight basis was introduced in a voluntary way, and in 1941 it became the only way of grading. At the original origin of grading, right at the very outset, it was worked out between a committee of consumers and producers whereby a special additional price was paid for the top grade by the packer. In the course of time the Government, in order to promote the production of better quality hogs in the last war, undertook to pay a quality premium in the direction of hogs. At that time they asked the packer to discontinue paying a premium as such, but a price was worked out between the processor and producers between the A and B hogs -- that is, \$1 a hundredweight.



COMMISSIONER KIDD: So, it is fair to say that to some extent the consumer, as a taxpayer has a payment to make there?

MR. MANNING: No, I wouldn't say that.

COMMISSIONER KIDD: Well, if the government pays for it, surely the taxpayer is giving the government the funds to pay?

MR. MANNING: Oh, the government premium? To a degree, yes. I think there are other industries who do things -- it is a good thing to pay for ---

COMMISSIONER KIDD: There are a great many things done for many industries. We agree on that. On page 7 you say, at the top paragraph, there are definite maximum limits on throughput: in your experience do you say **that** a larger volume of throughput causes higher unit costs?

MR. MANNING: There comes a point when it can.

COMMISSIONER KIDD: What is that point?

MR. MANNING: Well, it would depend upon the industry and the operation of the plant -- its facilities, and so on.

COMMISSIONER KIDD: In this particular industry?

MR. MANNING: You could not state it for the industry. It would vary with the plants.

COMMISSIONER KIDD: Well, what would be the conditions where the unit cost would rise?



MR. MANNING: Where you had to put on extra gangs and work overtime; there would be extra costs involved in order to do that. You might compensate a bit from the standpoint of your overhead remaining -- reduced in total volume -- but when you have to start to exert certain pressures on your operations, as it were, you can come to a point of no return. But, I am not qualified to talk about plant operations; I am sorry, I am not an operating man.

COMMISSIONER KIDD: I am interested in under what conditions you can have higher unit costs as your throughput increases? I would have been under the impression that up to the point of plant capacities the more throughput that you had the more your unit costs would decline.

MR. WHYTE: Mr. Kidd, I think every plant has got a point of optimum production where everything is in balance and there is no overtime, and you are working your machinery to the full, and things are working properly. If you get below that, you have got slack time, and the overtime to catch up to it costs extra money. If you go the other way and start to over-produce you have extra charges and various other things that you have to pay for doing that. Also, you get into quality problems.

COMMISSIONER KIDD: You are not suggesting that the returns from working overtime are less than the returns when working the plant normal work hours?



MR. WHYTE: If you are paying time and a half your cost of labour is more.

COMMISSIONER KIDD: I find it difficult to understand why any industry would operate on an over-time basis unless there was something to be gained out of that?

MR. WHYTE: You have to satisfy the customers.

MR. LECKIE: Also, the livestock market -- I don't think there has been a time in this country when the markets haven't been cleared. The meat packer doesn't stop buying livestock just because he fills it up to the doors.

THE CHAIRMAN: I suppose the point of optimum operation is not identical with the point of complete and full capacity?

MR. LECKIE: That is right.

COMMISSIONER MacKICHAN: I have a question three-fifths of the way down page 6, where you say, "While most processors will buy cattle on a carcass grade and weight basis from producers who ask for this method of settlement, the industry has not taken any initiative suggesting any such fundamental change." I was wondering about rail grading of hogs, which would be so much easier, and you can be so much more accurate in arriving at a grade when the animal is on the rail rather than buying it in farmer's feed lot: why hasn't rail grading followed through on



cattle?

Mr. MANNING: I think there are two basic reasons: one is that the quality of our cattle is not as uniform as hogs. We have a very uniform standard quality in our market hogs. We have four or five grades, but the standard is very close. You have a much wider range with cattle. Secondly, I think identification is one of the big problems. It is easy to identify a hog by means of a tatoo, but the hide of cattle are removed, and it is a manual process in which there is an element of error that can creep in, where, in small lots coming from an individual shipper or producer, it could be calculated wrongly -- in other words, a mix-up. Where a shipper is sending in a lot of cattle it is much simpler, but there are some plants that are trying to do this job, but they are doing it with the willingness of the producer wanting it and not insisting upon it.

COMMISSIONER MacKICHAN: There is a board of producers that do insist on it and identify the cattle by ear tag, like they do with lambs?

MR. MANNING: Yes, but the tag has to be transferred. It is being done where they are prepared to do it.

COMMISSIONER MacKICHAN: How do they identify it?

MR. MANNING: Well, it is a manual process, but it brings up an area of possibility of mixing up of



lots, and so on. It is a little more difficult than hogs. However, I am not saying it is impossible.

COMMISSIONER MacKICHAN: There are some producers who think it takes other elements of risk -- that it is well worth while.

MR. MANNING: That is right.

COMMISSIONER MacKICHAN: Such as who judges the animal out in the field.

MR. MANNING: Also, from the processors' point of view, you buy the actual yield carcass as against the possibility of an animal that has a very low yield in relation to its weight.

COMMISSIONER MacKICHAN: The buyer is probably more experienced than the farmer who is selling?

MR. WHYTE: The other thing too, is, if the animal is diseased ---

COMMISSIONER MacKICHAN: That was my next question -- whether you have an inspected plant, and when they are in charge of condemning the animal in whole or in part, the farmer who consigns the animals is reimbursed: what is the situation when the packer buys outright?

MR. MANNING: And owns the animal?

COMMISSIONER MacKICHAN: Yes.

MR. MANNING: He loses on the deal. In other words, the animal has to go to the tank, and it cannot be used for meat.



COMMISSIONER MacKICHAN: I wasn't so clear on that point, but it is another reason why I would think if there were not some gains by doing otherwise that the packer would be inclined to favour rail grading?

MR. LECKIE: Of course, another basic reason is that cattle can be sold either for immediate slaughter or for further feeding, and in the cattle market some of the cattle some of the time go back to the country. If there was only a carcass settlement and someone wasn't there to quote a price on a live basis, that would introduce problems in that regard. When they are sold for market -- the hogs -- they are there for one purpose only.

COMMISSIONER MacKICHAN: Would there be in ordinary conditions many animals going back to the farm consigned directly to the packing plant?

MR. LECKIE: Not those consigned directly. They may come from the yards. There are two or three thousand a year possibly go back.

COMMISSIONER MacKICHAN: Reduced to a percentage basis, it would be very small?

MR. LECKIE: Probably 15 or 20 per cent.

MR. MANNING: I think we stated quite correctly that the processors stand ready to buy livestock in the way the producer wants to sell. He indicates his wish, and they will try to arrive at an arrangement to buy on his basis.



COMMISSIONER WALTON: I was wondering to what extent, if any -- I know your Meat Packing Council represents only those in the industry that deal with federally-inspected products, but does your Association have any comparable figure that would indicate the percentage of meat products that are handled in that way as against the smaller ones that don't?

MR. MANNING: The Bureau of Statistics publishes figures which give an indication of those operations outside of inspected establishments, to make an estimate of meat consumption based on some plants that are not under inspection, and whether they can get records -- they get them from quite a sizeable number -- and, in addition, they make an estimate on the farm slaughter too.

COMMISSIONER WALTON: I don't have that figure, but I was wondering if this element -- perhaps it would vary across the country -- would be a factor in competing on price, although it is not the same meat they are selling, obviously, but does it have any tendency to pull down or prevent the graded meat from being sold at a higher price than it might normally be? Have you any observation on that?

MR. MANNING: Purely speculative: but I think our consumers are quite aware of the advisability of buying inspected meats from the standpoint of their protection, and in some areas they do not -- where



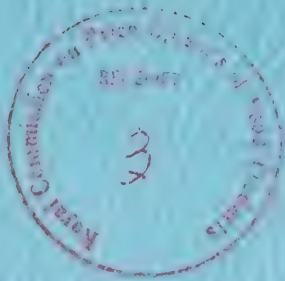
livestock is available and they are quite some distance from the central place of slaughter, and going back in an inspected form, they will still continue to have what we call a home slaughtered product, but, by and large, I think the figure is some 80 per cent of all our meat is inspected, and that is due to consumers' wishes -- demand for the inspected product.

COMMISSIONER WALTON: There have been some areas, and it has been indicated to us across the country, that they are not too sure they are not paying the top price for commercial?

MR. LECKIE: I certainly have heard instances where in the case of some processed meats, like weiners and sausages, they seem to be cut-rate prices, and I think it has some effect on the total volume. They may not only be not inspected, but the ingredients also -- I am not casting aspersions on them, but you do see occasional cases where it happens.

THE CHAIRMAN: Well, thank you, gentlemen, for your very helpful views. There being no more briefs today, the hearings will adjourn now until tomorrow morning at ten o'clock when we will receive the brief of La Confederation des Travailleurs Catholiques du Canada Inc.

---Whereupon the hearing adjourned at 5.45 p.m.
to resume at 10.00 a.m., Friday, November 21, 1958.



ROYAL COMMISSION

ON

PRICE SPREADS OF FOOD PRODUCTS

Dorothy Walton

HEARINGS

HELD AT

OTTAWA

CITE

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ROYAL COMMISSION ON PRICE SPREADS OF FOOD PRODUCTS

Proceedings before the Royal Commission on Price Spreads of Food Products commencing at 10.00 a.m., Wednesday, October 15th, 1958, at Montreal, Quebec.

CHAIRMAN:

Dr. Andrew Stewart

COMMISSIONERS:

Mrs. Dorothy Walton
Mr. J. Howard MacKichan
Mr. Romeo Martin
Mr. W. Malcolm Drummond
Mr. Cleve Kidd
Mr. Bernard Couvrette

Secretary

John A. Dawson

Assistant Secretary

A. A. Caron



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COMMISSION ROYALE D'ENQUÊTE SUR
LES ÉCARTS DE PRIX DES DENRÉES
ALIMENTAIRES.

Compte rendu de la séance de la
Commission Royale d'enquête sur
les écarts de prix des denrées
alimentaires commençant à dix
heures de l'avant-midi, vendredi,
le 21 novembre 1958, à Ottawa,
Ontario.

PRESIDENT:

M. Bernard Couvrette

COMMISSAIRES:

Madame Dorothy Walton

M. Roméo Martin

M. W. Malcolm Drummond

M. Cleve Kidd

M. J. Howard MacKichan

SECRETAIRE

John A. Dawson

SECRETAIRE ADJOINT

A.A. Caron



---La séance debute a dix heures de l'avant-midi.

Vendredi,

le 21 novembre 1958.

PRESIDENT: M. Bernard Couvrette.

Memoire

de

LA CONFEDERATION LES TRAVAILLEURS
CATHOLIQUES DU CANADA.

COMPARUTIONS:

M. Roger Mathieu, President.

M. Jean Marchand, Secretaire general.

M. Gerard Pelletier, Officier des relations
exterieures.

- - - - -

M. LE PRESIDENT (M. Bernard Couvrette): Alors, Messieurs, le Dr. Andrew Stewart, qui est le president de cette Commission, siege ailleurs ce matin en d'autres fonctions officielles, c'est ce qui me vaut l'honneur d'etre dans le fauteuil presidentiel presentement.

Nous avens remarque que vous nous avez fait parvenir votre memoire en francais, et un copie



traduite, alors, je crois qu'il serait juste de vous demander dans laquelle des deux langues preferez-vous proceder?

M. MARCHAND: L'une facon nous ecrivons mieuy le francais que l'anglais, alore nous preferons proceder en francais.

M. LE PRESIDENT: Alors, maintenant, si vous voulez bien proceder a la lecture de votre memoire.

M. MARCHAND: Alors, monsieur le president, messieurs les membres de la Commission, madame, la Confederation des Travailleurs catholiques du Canada est heureuse de presenter son point de vue sur les sujets qui interessent votre Commission d'enquete. Nous vous remercions d'avance de l'attention que vous accorderez aux observations et recommandations exposees dans le present memoire.

Notre organisation syndicale compte cent mille membres recrutes parmi les travailleurs et travailleuses de l'industrie, du commerce et de l'administration. De revenu modestes, nos membres font partie de la masse des consommateurs, soit du secteur de la population le plus affecte par les hausses de prix en general et particulierement par celles qui influencent le marche des denrees alimentaires. Vous ne serez donc pas etonnes de nous voir comparaitre devant votre commission pour faive valoir le point de vue de nos membres.

Le present memoire traite presque exclusive-ment du troisieme point de votre mandat, tel que defini par le Gouverneur general en Conseil, c'est-a-dire qu'il



S'applique a formuler des voeux susceptibles de reme-
dier aux ecarts de prix trop prononces.

Notre premiere intention avait ete de
soumettre des considerations sur chacun des quatre
points precises dans votre mandat. Mais des consul-
tations avec le Congres du Travail du Canada eurent
tot fait de nous convaincre que nos positions
coincidaient parfaitement avec celles du CTC quant aux
causes des ecarts de prix et a leur caractere, de meme
qu'a l'insuffisance des renseignements dont nous
disposons actuellement pour l'etude de cette question.

C'est pourquoi nous vc lons en tout premier
lieu appuyer sans restriction le sens et la portee du
memoire presente a votre Commission par le C.T.C., le
14 novembre dernier.

Sans reprendre a nouveau une demonstration
statistique qui conduirait fatalement a d'inutiles
repetitions, nous voulons souligner la conclusion
principale de ce memoire, a savoir que la hausse des
salaires payes aux travailleurs de l'industrie des
denrees alimentaires ne saurait en aucune facon etre
tenue pour la cause des ecarts de prix dans ce secteur
de l'economie.

De meme, l'absence des statistiques adequates
qui permettraient d'analyser a fond le facteur profit
nous parait meriter l'attention souteneu de votre
Commission. Nous souhaitons que cette carence grave
fasse l'objet d'une recommandation de votre part.

Quant au second point de votre mandat, il est
indeniable qu'il s'est produit une multitude d'abus,

au Canada, dans le domaine des prix. Des commissions d'enquête gouvernementales en ont dépisté un certain nombre et le public reste convaincu qu'il s'en est commis bien d'autres.

Les hausses injustifiées de prix, les limitations arbitraires de la production, la concurrence effrénée sont autant d'abus qui conduisent à l'anarchie économique et à la destruction du régime de la libre entreprise. Non seulement ces abus ne doivent-ils pas se commettre, mais le peuple doit être convaincu qu'ils ne se commettent pas et doit disposer des moyens nécessaires pour le vérifier.

Ce qui inquiète le plus le consommateur canadien depuis quelques années est la course folle des prix des biens et des services produits au Canada.

Peut-on s'en remettre au libre jeu de la concurrence dans la fixation des prix? S'il y a des abus, comment, à l'intérieur du régime de la libre entreprise exercer un contrôle ou une surveillance efficace qui sauvegardera les intérêts supérieurs de la nation?

La C.T.C.C. est d'opinion que la libre concurrence ne saurait servir de norme régulatrice à la vie économique.

Depuis dix ans, l'on peut affirmer que la concurrence fut un facteur secondaire et souvent négligeable dans la fixation des prix à cause du caractère quasi-illimité des marchés dont a joui l'industrie canadienne. Il est vrai que durant la période de guerre (1941-46) la Commission des prix a



exercé un contrôle assez rigide sur les activités économiques de la nation, mais depuis qu'elle fut abolie, aucun frein n'est venu ralentir la marche ascendante des prix, qui s'est traduite par un accroissement du coût de la vie et des profits.

Mais est-ce que dans une économie de paix normale le principe de la libre concurrence ne contient pas, dans de justes limites, la courbe des prix?

La C.A.C.C. est d'opinion que non, car un grand nombre d'industries et de services essentiels ne sont pas touchés par le jeu de la concurrence.

Si nous demandons au Gouvernement de remettre en vigueur le contrôle des prix, on nous répondra sans doute que ce contrôle doit être accompagné du contrôle des salaires.

La C.A.C.C. a étudié longuement ce problème et elle a trouvé une formule qui offre une solution de juste milieu entre le contrôle étatique des prix et la liberté absolue des producteurs et distributeurs de biens.

Nous nous contenterons de donner ici les grandes lignes et le principe de notre suggestion.

Tout d'abord, puisque l'on comprend que la politique des prix doit être reliée à la politique des salaires, examinons un instant ce qui se passe dans ce dernier domaine.

Il est évident que les salariés canadiens ne sont pas libres de fixer leurs salaires suivant leur caprice. Ils subissent le contrôle de leur employeur dont l'attitude est conditionnée par des facteurs



économiques, tels que le marché de la main-d'oeuvre, le coût de revient, les profits, etc. Jusqu'à ce point l'on peut dire que les salariés sont soumis aux lois économiques ordinaires.

Mais l'Etat s'est aperçu depuis longtemps qu'une certaine surveillance devait être exercée sur les salariés dans leur recherche d'un plus grand bien-être. Il a constaté, par exemple, que des recours trop fréquents à la grève pouvaient compromettre le bien commun de la société. Aussi s'est-il empressé de restreindre l'exercice du droit de grève. Il a exigé que les salariés soumettent leur différend à des tribunaux d'arbitrage ou de conciliation qui font des recommandations sur le bien-fondé de leurs réclamations. Par ce truchement, l'opinion publique se renseigne sur les problèmes des salariés et exerce une pression dans un sens ou dans l'autre.

La C.F.C.C. est d'opinion que cette surveillance exercée sur les activités des salariés devrait également être exercée sur les producteurs de biens et les distributeurs de services. Pourquoi, par exemple, ne seraient-ils pas soumis eux aussi à l'obligation de soumettre à un tribunal leurs demandes d'augmentation de prix? Le public a autant d'intérêt dans la fixation des prix que dans la détermination des salaires.

PROJET D'ARBITRAGE DES PRIX DE LA C.F.C.C.

La C.F.C.C. demande au Gouvernement fédéral et aux Gouvernements provinciaux d'instituer, par voie



de législation appropriée, des tribunaux d'arbitrage des prix qui auraient une double fonction:

- a) juger des motifs invoqués par les producteurs primaires ou par l'industrie de base du pays ou encore par les distributeurs des produits et services essentiels à la nation, à l'appui des hausses de prix sollicitées et faire connaître au public les hausses qui ne sont pas justifiées.
- b) enquêter dans tout secteur de la vie économique afin de dépister les abus dans le domaine des prix et de les dénoncer publiquement, de même que dans le domaine de la structure financière des entreprises en autant que cette structure peut influencer les prix.

MODE D'ETABLISSEMENT

Le Gouvernement fédéral et les Gouvernements provinciaux devraient s'entendre sur les principes et les principales dispositions de cette législation.

FORMATION

Nous suggérons que les provinces et le fédéral aient leurs propres tribunaux respectifs qu'ils administreraient séparément, suivant les lignes de juridiction qui leur sont propres et qu'ils s'entendent sur la formation d'un tribunal national d'appel qui pourrait jouer le rôle de tribunal de première instance dans le cas des entreprises de producteurs ou distributeurs tombant normalement sous la juridiction fédérale.



POUVOIRS

- a) Tous les producteurs primaires ou de base (v.g. : ceux appartenant à l'industrie textile, du combustible, de l'électricité, de l'acier, de l'alimentation, de l'exploitation forestière, des produits chimiques, des métaux, des mines, etc.) et les distributeurs de services essentiels à la nation (v.g. Chemins de fer, compagnies de navigation, de téléphone, de télégraphe, etc., à l'exception de ceux tombant sous une régie provinciale ou fédérale) avant de hausser le prix de leurs produits ou services, devront soumettre au tribunal d'arbitrage des prix qui aura juridiction, une requête indiquant les raisons motivant leur demande.
- b) Les tribunaux d'arbitrage auront tous les pouvoirs conférés aux commissions royales d'enquête.
- 1.- Aucun producteur tombant dans le champ d'application de la loi ne pourra augmenter ses prix avant qu'un mois se soit écoulé depuis la publication de la recommandation du tribunal d'arbitrage.
- 2.- Si les motifs invoqués par le producteur ou distributeur ne sont pas jugés satisfaisants par le tribunal, ce dernier rendra publiques les raisons de sa décision, à moins que le requérant ne retire son application.
- 3.- Le requérant qui désire hausser ses prix devra fournir au tribunal toutes les informations sur



son histoire ou situation financière, marchés, coût de revient, etc., mais ces informations demeureront confidentielles à moins que ledit requérant ne décide d'augmenter ses prix malgré la recommandation du tribunal.

4.- Toute association reconnue et représentative pourra demander d'être entendue par le tribunal ou lui adresser une demande d'enquête.

5.- Le commerce de détail devra être formellement exclu du champ d'application de la loi, en ce qui a trait à l'obligation de présenter une requête avant de hausser le prix des produits. Toutefois, il pourra faire l'objet d'une enquête.

6.- Sont exclues également l'agriculture et les coopératives.

COMPOSITION

Les tribunaux d'arbitrage des prix pourraient être composés d'un ou des représentants:

- a) des producteurs,
- b) des associations ouvrières,
- c) des coopératives,
- d) des industriels,
- e) du gouvernement.

Ces représentants seraient nommés par le gouvernement sur la recommandation des organisations ci-haut mentionnées et pourraient être remplacés de la

même manière.

RECOMMANDATION

La C.T.C.C. recommande donc que les distributeurs de services et les producteurs de biens essentiels à la nation soient soumis à des tribunaux d'arbitrage des prix qui se distingueraient de trois façons de l'ancienne Commission des prix :

a) Par leur composition:

Ils devraient être formés sur une base représentative (industriels, consommateurs, syndicats ouvriers, gouvernements);

b) par leur mode d'établissement.

Les tribunaux d'arbitrage devraient être créés par voie de législation concurrente fédérale-provinciale;

c) par leurs pouvoirs.

Les tribunaux d'arbitrage des prix n'auraient que le pouvoir de faire des recommandations et d'enquêter.

La C.T.C.C. croit que l'application de cette formule aura pour effet de développer la conscience des masses sur le plan économique et, dans une démocratie, cette conscience, d'où naît une opinion publique éclairée, constitue le meilleur gardien du bien commun. Les tribunaux d'arbitrage des prix formeraient une espèce de cerveau de la vie économique et l'empêcheraient de subir les déviations que nous avons à déplorer.



M. LE PRESIDENT: Merci, monsieur Marchand.

Tout d'abord, je dois vous dire que nous avons reçu ce mémoire il y a deux jours à peine, je crois. Et, comme vous le dites à un certain endroit, c'est un mémoire que vous avez étudié longuement et qui contient vos recommandations.

Alors, je crois que nous pourrions compter un peu sur votre indulgence lors des questions que nous vous poserons en vous parlant de votre mémoire, des questions qui pourraient être parfois plus ou moins réfléchies.

Il y a un autre point de vue que j'aimerais faire ressortir. Nous en sommes au 27^e mémoire depuis mercredi dernier et je puis vous dire pour ma part que j'ai lu votre mémoire entre minuit et une heure cette nuit et, si nuit porte conseil, eh bien, nous verrons.

Maintenant, si les questions sont posées en anglais, est-ce que vous préférez répondre en anglais ou en français?

M. MARCHAND: On pourrait essayer de répondre en anglais, l'un ou l'autre. Il y a peut-être quelque chose, monsieur le président, si vous voulez, je me suis aperçu en lisant le texte anglais que nous employons la même expression "arbitration of prices as proposed by the CCCL". Alors, "arbitration" en anglais, a un sens différent de arbitrage en français, c'est-à-dire que arbitrage en français ne conduit nullement à des conclusions qui lient les parties. Enfin, nous disons que c'est un langage qui a été un peu emprunté à la



législation ouvrière de la province de Québec. Nous avons traduit en anglais, tandis que "arbitration" en anglais means compulsory, that means that they decide, you know, it's arbitration. I mean, I have to underline that to you, but it's not the idea to have a Board of Arbitration that will decide definitely and will bind the parties.

M. LE PRESIDENT: Je crois, monsieur Marchand, si vous me le permettez, nous aurons les questions qui pourront être posées pour interpréter le sens rendu par la traduction; à moins que vous ayez d'autres remarques à faire, on devrait les mettre de côté parce que vous trouverez toujours des divergences possibles dans l'interprétation, lesquelles résultent de la traduction. C'est pourquoi je vous demandais si vous vouliez adopter la version française ou la version anglaise.

M. MARCHAND: Si j'ai fait cette observation c'est parce que celle-là est fondamentale, c'est l'essence même du système proposé.

M. LE PRESIDENT: Ce qui peut fort bien nous amener à vous poser des questions quant à la traduction qui aura été apportée.

Permettez-moi une question préliminaire. C'est une recommandation dont le but serait la réponse à toutes les difficultés, ce sont les termes mêmes de votre mémoire, n'est-ce pas?

M. MARCHAND: Ce n'est peut-être pas affirmé aussi catégoriquement que cela.



M. LE PRESIDENT: Vous avez trouvé une formule, vous offrez une solution, un juste milieu, mais enfin, cela doit être une solution, si la vertu réside au milieu, cela doit être une solution idéale; est-ce que vous l'avez déjà présentée, ou est-ce la première fois que vous la présentez?

M. MARCHAND: C'est-à-dire, c'est une formule qui a déjà été adoptée par nos congrès, déjà rendue publique et qui a été tout à fait développée d'une façon comme vous l'avez, aussi strictement comme vous l'avez là. Je ne crois pas qu'elle ait été présentée.

M. LE PRESIDENT: Alors, on peut s'excuser d'en être ignorant.

M. MARCHAND: Non pas à partir d'aujourd'hui mais après aujourd'hui!

COMMISSIONER DRUMMOND: As I understand your brief, your general thesis is that, because of certain definite limitations of uses or malwork, - shall we say, - of free competition, you feel that we simply cannot any longer rely upon free competition to establish prices and, therefore, as a substitute for it, you are thinking of suggesting this formula which is the use of price arbitration boards, is that correct?

MR. MARCHAND: Well, it's correct to a certain extent, it's not, formally speaking, it's not a substitute to free competition, because free competition will exist even if you have this scheme adopted, but it is something that is going to help free competition, because we will know the reason why the prices are



increased, but it's not a substitute.

COMMISSIONER DRUMMOND: Not a substitute.

I notice that, of course, this would not apply to either the retail trade or agriculture, is that correct?

MR. MARCHAND: Yes.

COMMISSIONER DRUMMOND: Now, what would be the reason for excluding those, would it be because it simply wouldn't work?

MR. MARCHAND: Well, it might be a reason, but, I mean, the reason is that we feel that, as long as the farmers are concerned, or the retail trade, competition plays all right in those fields and there is no danger of economic concentration as there is in some other fields, you know.

COMMISSIONER DRUMMOND: I see, because of the fact, so to speak, that you suggest the use of those Boards would be to record information which would be supplied as confidential, but only on the condition that those who supplied it, adopted the recommendations of the Boards, is that correct?

MR. MARCHAND: Yes.

COMMISSIONER DRUMMOND: You feel that that would be quite effective.

MR. MARCHAND: Well, it's surely some kind of pressure; we want them to be free, but not too much, probably this is why we put that there.

COMMISSIONER DRUMMOND: There is one point, where you, on page 2 I guess it is, where you talk about, in the English translation you use the words



"unjustified price increases, arbitrary limitations of production and unrestrained and unrestricted competition, all are so many abuses..."

I wasn't quite clear as to the meaning of the last ones, "unrestrained and unrestricted competition", whether you thought it was too much competition and you were having too much competition or having too little.

MR. MARCHAND: Well, it's because we firmly believe that competition, in the long run, destroys itself and leads to economic concentration and absolute disappearance of competition in itself. This is why we believe it's abusive.

COMMISSIONER DRUMMOND: You feel that the development has gone to the point now, in certain spheres where competition as we once knew it, is virtually non-existent?

MR. MARCHAND: Yes.

COMMISSIONER DRUMMOND: It really killed itself?

MR. MARCHAND: Oh yes.

COMMISSIONER DRUMMOND: You quite rely on the way you propose to give the results it is supposed to supply?

MR. MARCHAND: Yes.

COMMISSIONER DRUMMOND: I think that's all, thank you.

COMMISSIONER KIDD: I just think maybe I misunderstood your answer in regard to the fact that you didn't include retail and agriculture.



MR. MARCHAND: We didn't include retail and agriculture, no.

COMMISSIONER KIDD: Why is that?

MR. MARCHAND: It's because we feel that, in those fields, competition regulates the prices pretty well.

COMMISSIONER KIDD: In the retailing of all commodities?

MR. MARCHAND: Well, generally, say we feel that the present system is equitable.

COMMISSIONER KIDD: And does this apply to food commodities?

MR. MARCHAND: It does apply to food commodities, but I think that this field must be - well, there must be some inquiries in those fields if there are some abuses.

COMMISSIONER KIDD: Well, I want to get your expression of opinion on that, because we have had quite a bit, I shall not say of evidence both ways, from various groups, there have been numerous people who came in and to say there is almost a complete lack of competition and that leads to excess of every kind. And, on the other hand, we have people who came in to say we have the ultimate competition. So, I want to see where your viewpoint falls in that regard.

MR. MARCHAND: Well, maybe you're right in a sector where competition no longer exists. Well, I think that this should be inquired into, and, if ever we feel



it must be put under the jurisdiction of the general arbitration scheme; well, let's do it at that time.

COMMISSIONER KIDD: I am not saying that you're right, and I am not saying that you are wrong.

MR. MARCHAND: No, no.

COMMISSIONER KIDD: I am just placing a question that was raised to us.

MR. MARCHAND: But it was the general idea in our brief that the retail trade and the farms, the farmers, should be excluded and the co-operatives, because we believe, generally, in those fields, that free competition can take care of the prices.

COMMISSIONER DRUMMOND: Am I right, Mr. Marchand, in concluding, in your last paragraph, I think, you suggest there that this formula of price determination, if it was used, that while it was being used, it would actually be a basis of educating the people and, in time, would result in a more enlightened public opinion?

MR. MARCHAND: Yes.

COMMISSIONER DRUMMOND: And, when that public became enlightened, then that would virtually solve the problem.

MR. MARCHAND: Well, it would help, was our suggestion.

COMMISSIONER DRUMMOND: Does this suggest to you a long period of use of this formula; the method would not have to be permanent, that it would only have to be used until such time that the public would become



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enlightened?

MR. MARCHAND: No, we consider it a permanent formula. Well, you know, where we have done that, from our experience in the labour field; take, for example, the railway dispute of which there is talk about right now, because the public has something to do, because we are informed and we are informed of these consultation boards which study the case, there might be a better solution that will result.

COMMISSIONER DEPUCE: You feel that public opinion should be informed?

MR. MARCHAND: Yes, that's right.

COMMISSIONER KIDD: This is really the "measurement" of prices?

MR. MARCHAND: It's more a measurement than arbitration; this is why, at the beginning, I said the translation of the word "arbitration" in English is not correct, I think we will have to find something else.

MR. PELLETIER: The use of arbitration means that a decision of the Board will bind the parties.

MR. MATHIEU: By definition, if you have something arbitrated, it's definitely decided by the Board; in French, it's not necessarily that, we have to order. Arbitration Boards' decisions will be binding on the parties.

COMMISSIONER KIDD: We are going back fifty years, this was the reason for which conciliation of labour disputes was first used.



COMMISSION WALTON: As it implies with our Commission, we are dealing in foods, which would be agriculture and fisheries, these would be excluded, so it would be the in between sector. What about the processors, had you followed through the thought of a new plant deciding to make something else; this would be their cost, if they knew there was such a Board, they would start higher at the beginning, then they wouldn't have to ask for the increase.

MR. MARCHEMUND: What do you mean, prior to the implementation of this scheme?

COMMISSION WALTON: Or in other fields, what effect would it have with new producers of automobiles, now manufacturers coming in, would this mean then, this Board, perhaps in order to make the in between field, workers would have to have a greater power, then it might wind up somebody could enter that field - would you think that would be good?

MR. MARCHEMUND: Well, I think in the place of a new product, if I understand, I get you well, they would have to submit their prices of the cars either to the price boards or the arbitration boards just to explain why the prices are fixed at such a level and they can determine it at this level after that, but we will know where we start from and why it was determined at this level.

COMMISSIONER WALTON: This was supposed only for price increases, but very often a company starts



and the prices, they have a risk capital, they don't know whether the public will go to buy their products, it might be a new automobile, they might have something to sell, this is not food, but what about loss?

MR. MARCHAND: You know, generally, they are free to fix the prices they want for their product, they only have to explain to the Board why it is determined that way, why they have determined that, but they are free, and it's not compulsory. This is why I don't see, of course, there are imponderable factors, of course, but I don't think that a Board like that can evaluate that, but on the long run I think it's healthy to-day to explain to the public, through such a scheme, through such a Board, why they acted in such a way in their price policy. If it was compulsory, I would feel, the way I feel it's not sufficient, we wouldn't know what we are going to do.

COMMISSIONER WAITON: It's going to be for a little while until it becomes permanent?

MR. MARCHAND: Yes.

M. LE PRESIDENT: Est-ce que, je ne crois pas que la concurrence a cet effet quand elle existe?

M. MARCHAND: Quand elle existe.

M. LE PRESIDENT: Vous dites à un moment donné, que

"la C.F.C.C. est d'opinion que la libre concurrence ne saurait servir de norme régulatrice à la vie économique."



C'est à la page 2.

M. MATHIEU: Nous devrions dire plutôt "l'unique norme régulatrice", puisque c'est ce que nous avons à l'esprit.

THE CHAIRMAN: Well, on page 2, there is a correction, I wonder if it's in the same place, in the first paragraph on free competition it says "cannot serve as the one and only norm to regulate the country's economic life", in Mr. Mathieu's opinion.

Alors, ceci revient un peu à dire que si la libre concurrence joue vraiment son jeu, je crois que la réponse que vous avez donnée n'est pas trop mal.

M. MARCHAND: Oui, théoriquement c'est vrai ce que vous dites, seulement, en fait, ce n'est pas vrai; quiconque regarde un peu la vie économique du Canada, soit l'industrie de l'acier, de l'aluminium, de l'automobile, les seuls produits chimiques, le papier, c'est bien sûr que ce plan existe, ce plan de la libre-concurrence, seulement on a affaire à un système, on a essayé de le rendre le plus profitable possible.

COMMISSIONER WALTON: Two other observations. This would be quite involved, this would be an all embracing one, covering all the industries, all the basic industries, transportation, manufacturing, everything. Well, I was just wondering, you wouldn't have to have the whole set up for each industries of this type, because, how would you control it, I mean it might be very unwieldy and might be more costly, more costly than mistakes in the administration.



MR. MARCHAND: Well, you have it for wages in all fields and it is not, well, it is costly, but we assume that it costs less than not to have them.

M. LE PRESIDENT: Mais, monsieur Marchand, si vous me le permettez, madame Walton mentionnait le domaine alimentaire ce qui veut dire environ 10,000 produits, n'est-ce pas, et le prix n'est pas fixé sur une norme unique pour les 10,000 produits, chaque produit offre une variété de prix et de profit, et de coût, n'est-ce pas, dans son coût actuel que dans le coût au consommateur, alors c'est là la difficulté et nous arrivons avec une réponse presque incommensurable.

M. MARCHAND: C'est parce que ces difficultés sont réelles, seulement quand vous regardez l'expérience que nous vivons dans la multitude des industries où nous sommes, qu'il y a des arbitrages dans toutes ces industries, pour tous les métiers et toutes les occupations, sans doute vous en avez déjà, qu'il s'agisse de tribunaux d'arbitrage ou autres, et cela pour diverses entreprises, c'est complexe comme d'autres le seraient aussi.

M. LE PRESIDENT: Si vous me le permettez, il faut s'entendre sur quelque chose. C'est que, dans les métiers, tout de même si vous réglez le cas des salaires et l'état des ouvriers, et des relations entre patrons et ouvriers dans un domaine donné, soit disons dans le domaine alimentaire, c'est simplement la même chose, en catégorisant en cinq ou dix différents secteurs, les relations ramolies, mais pas mal la même



chose pour 40 ou 50,000 ouvriers dans un secteur donné et qui peuvent tomber sous une telle entente, mais, dans l'alimentation les prix varient parfois pour 10,000 items, et comment expliquer le changement des prix qui est une affaire quotidienne des marchés, absolument d'ordre quotidien, et non seulement quotidien, c'est aussi à l'heure et le prix n'est pas le même à huit heures qu'il pourrait l'être à deux heures de l'après-midi; les gens achètent des animaux de la ferme et il y a différents moyens d'établir les prix, on peut considérer de procéder par ventes à l'enchère et le prix varie peut-être de \$20 pour une quantité, à dix ou vingt-deux et cinquante, et à onze heures à dix-neuf et trente; ça marche comme cela. Je comprends qu'il y aurait moyen de classifier un peu, mais c'est comme cela, à peu près, dans les 10,000 produits. En théorie, c'est bien, au point de vue pratique, vous avez quelque chose à faire et je pense bien que c'est là la raison pour la question de Mme Walton.

M. MARCHAND: Oui, je comprends les difficultés comme il y en a chez nous des difficultés, seulement, je pense qu'un tribunal prendrait fatalement une certaine expérience pour établir des marges pour bien faire la rencontre avec ce que vous appelez la fluctuation journalière dans les cents afin de savoir qu'est-ce que va devenir le prix du beurre, seulement, ça peut se faire dans certaines limites raisonnables et, à un moment donné, si ça dépasse cela, il faudra se



demander la cause artificielle de l'augmentation des prix. On pourrait développer une technique qui permettrait de dépister ces choses-là, tout ce qui, dans le jeu normal de la concurrence, puisse être un moyen dans l'établissement du système que l'on soumet.

COMMISSIONER DRUMMOND: I am not sure I meant the same question as the Chairman, I think perhaps Mrs. Walton's question suggests this thought to me, that when you use arbitration methods in determining any price, naturally, you do not expect that that price will have to change too often, you can't go to the time and trouble and expense of arbitrating any price if you're going to change it very very often or very soon again. I am wondering whether, perhaps one of the real difficulties in the use of this method would appear to be when you got to the retail man, it seems to me that perhaps it would be the retail price of food products that might have to be changed most regularly and that would involve a great deal of work and trouble on the part of the Boards; what would you think of that?

MR. MATCHAND: Well, you mean the retail prices?

COMMISSIONER DRUMMOND: Yes, you have excluded them, now you think you would come to that?

MR. MATCHAND: Oh yes, if it's excluded, of course, what's your idea?

COMMISSIONER DRUMMOND: If it becomes necessary later to use this to cover the retail end as well.





MR. MARCHAND: No, of course we don't fancy that, but we just excluded it for the reason I mentioned at the beginning.

COMMISSIONER DRUMMOND: Yes, would this reason be an additional one to exclude it, the fact it would be unwieldy, more costly, you would have to change the price more often?

MR. MARCHAND: Well, it is a reason, I don't know if it would be workable to extend that to the retail trade, and we still feel that competition is a good reason in that price field.

M. LE PRESIDENT: Voici, à tout événement, je crois qu'on peut s'entendre au moins sur le principe suivant: s'il a été facile à déterminer au préalable que un tel mode coûterait plus cher, et disons au consommateur, parce que, sommes toute, le Gouvernement c'est le consommateur en définitive, coûtait plus cher que l'amélioration qui pourrait se produire dans le prix des aliments, seriez-vous, à ce moment, en faveur qu'on adopte le mode?

M. MARCHAND: Bien, voici là vous m'amenez à juger un système beaucoup plus vaste.

M. LE PRESIDENT: Je ne vous demande pas de le juger, je vous demande une question directe.

M. MARCHAND: Oui, je vais répondre directement; comme vous l'avez constaté, le système s'étend à l'industrie, et nous autres, nous considérons, dans l'ensemble, qu'il faut protéger la société. Vous allez prendre des secteurs où cela n'est pas tellement



compliqué et, si au lieu du coût ordinaire l'on veut vendre 1/2c. la livre de plus, bien quand même il y a un arbitrage des prix pour toute l'industrie des aliments cela ne nous apparaît pas particulièrement onéreux; mais si cela s'applique à un produit chimique ou à l'industrie du papier, qui n'est plus à \$10 la tonne, cela demande une multitude d'enquêtes et cela démontre une fois arrivé dans un secteur où c'est un peu plus compliqué, comme le secteur de l'alimentation, seulement si on prend le système dans l'ensemble, je suis convaincu qu'il va être très économique pour l'ensemble de la nation et protégera très bien les secteurs, seulement je ne peux pas vous donner le prix par secteur.

M. LE PRESIDENT: Ma question est basée sur une hypothèse:

M. MARCHAND: Oui.

M. LE PRESIDENT: Vous ne voulez pas considérer, si c'était déterminé à l'avance de façon vraiment indiscutable, que cela dussé coûter plus cher que le système actuel de la concurrence, seriez-vous favorable ou non?

M. MARCHAND: Oui, c'est parce que...

M. LE PRESIDENT: Je comprends que ce n'est pas facile de déterminer d'avance et que vous avez vos doutes sur cette opinion, mais, prenons l'hypothèse quand on marche en vertu d'une hypothèse, il faut rester sur ce terrain-là.

M. MARCHAND: Oui, vous m'amenez au point



de départ de l'hypothèse, et on ne pourrait pas ne plus songer à cela, mais nous songeons surtout à l'augmentation artificielle des prix par des gens qui contrôlent le marché et ce sont ces gens que l'on veut atteindre. Ce ne sont pas tellement les gens qui se soumettraient aux lois ordinaires des marchés ou des prix, mais ce sont ceux qui augmentent les prix pour des raisons artificielles et qui contrôlent le marché, alors, si on peut les atteindre, cela va coûter meilleur marché pour le système de prix que nous préconisons.

M. LE PRÉSIDENT: Est-ce que l'on peut conclure que cela coûterait très cher?

M. MARCHEAND: Si vous nous établissez la preuve comptable que cela coûte plus cher, cette preuve nécessairement se relierait à un certain nombre de cas particuliers et, encore là, nous ne serions pas d'accord parce que on n'aurait pas tous les cas possibles devant nous, parce que, pour une période de l'année, pour un certain nombre de cas cela ne pourrait être vrai, mais, prenez sur une longue période, ce sera peut-être vrai et là nous ne serions pas d'accord même pour la période couverte.

M. LE PRÉSIDENT: Alors, en mettant tout dans le doute et qu'il serait démontré clairement que c'est un risque - je comprends bien que c'est hypothétique,...

M. PILLETIER: En somme, vous nous demandez que, si vous êtes convaincus que votre système est mauvais, est-ce que vous trouveriez que l'on peut l'appliquer; à cela on peut répondre, non.



M. LE PRÉSIDENT: C'est déjà quelque chose.

COMMISSIONER WALTON: Just one more on composition; if we are going to have these Boards, I see there must be a thousand of them, I think there should be a consumer on there, because she would know as much about some phase of the business.

MR. MARCHAND: Which page are you referring to?

COMMISSIONER WALTON: Page 6, your composition you have a) producer,
b) labour organizations,
c) co-operatives,
d) industry, and
e) the government, and I would put
f) consumer, as a suggestion.

MR. PELLETIER: With pleasure.

MR. MARCHAND: Mrs. Walton, we will put consumer. Will you please add consumer in that list.

MR. PELLETIER: Well, they appear down below.

COMMISSIONER WALTON: Down below?

MR. PELLETIER: And they should be there too.

COMMISSIONER WALTON: I am just wondering, I am a consumer, I am just wondering gear people, or one motor car company who makes gears for motor cars wanted to increase their price, I would be inclined to vote for it because I couldn't, I think it needs an expert in each field, I don't know if we have experts to provide all the Boards and for all the products in this country; that's just my first reaction.



M. LE COMMISSAIRE MARTIN: Je ne voudrais pas vous poser les mêmes questions qu'on vient de vous poser, cependant, je veux, pour justifier ou expliquer d'une certaine façon vos raisons pour ne pas inclure, et pour exclure, plus précisément, les producteurs et le détail, les détaillants, le commerce de détail, si j'ai bien compris, vous dites que, dans ces deux domaines-là, il semble que les dangers ou les possibilités de concentration sont moins grandes et, éventuellement, la libre concurrence peut jouer plus parfaitement; est-ce que c'est bien ce que vous avez dit?

M. MARCHAND: C'est, disons, la principale raison.

M. LE COMMISSAIRE MARTIN: Croyez-vous qu'il soit possible, supposons, avec le développement en agriculture, par exemple, d'une formule dont on parle beaucoup présentement et qui s'appelle l'intégration, à arriver à avoir, même dans le domaine de la production agricole, une concentration très grande?

M. MARCHAND: Je crois que c'est possible.

M. LE COMMISSAIRE MARTIN: Et, croyez-vous que, dans le commerce de détail lui-même, je comprends qu'il y a un très très grand nombre de détaillants, mais croyez-vous que là aussi la concentration, à un degré aussi avancé que dans d'autres domaines, puisse être possible?

M. MARCHAND: Oui, nous le croyons.

M. LE COMMISSAIRE MARTIN: Et, dans ce cas-là, je ne demande pourquoi vous excluez les deux domaines,



et de la production et du commerce de détail?

M. MARCHAND: Là, évidemment, c'est une question d'appréciation, et je ne crois pas que la concentration dans l'agriculture, et probablement que vous serez d'accord avec moi, est rendue à un point tel que cela constitue un danger pour le consommateur; on n'en est pas rendu là. C'est possible que l'on en arrive là si tous les petits fermiers, un jour ou l'autre, arrivaient à faire de l'agriculture tout à fait intégrée, industrialisée, comme cela a commencé à se produire dans certains secteurs, je crois que c'est vrai, mais ce n'est pas le problème actuellement. S'il y avait un danger que cela se produise, nous serions les premiers à demander un amendement au projet que nous soumettons aujourd'hui pour couvrir ces gens-là.

M. LE COMMISSAIRE MARTIN: Maintenant, quand on parle de concentration, croyez-vous, pour que les effets véritables de la concentration s'exercent, il faille avoir en fait un pourcentage qui atteigne presque le total que vous mentionniez tout à l'heure dans certains domaines où évidemment, il y a des entreprises qui sont presque uniques, et, comme on le dit, cela constitue une espèce de monopole; mais, croyez-vous, dans le domaine du commerce de détail, comme dans d'autres domaines, il faille aussi chercher la cause de la concentration, parce que, en effet, la concentration s'exerce?

M. MARCHAND: Probablement qu'elle est beaucoup moins grande, c'est-à-dire, que l'entreprise



couvre un secteur beaucoup moins large et on peut avoir l'effet de la concentration que l'on remarque dans l'industrie, c'est-à-dire, si vous contrôlez 40 p. 100 dans un commerce de détail, cela veut dire que le commerce de détail est soumis à l'effet ou reçoit les effets de l'entreprise concentrée, je crois.

M. LE COMMISSAIRE MARTIN: A la page 2, sous le titre "LA LIBRE CONCURRENCE", vous dites:

"Depuis dix ans, l'on peut affirmer que la concurrence fut un facteur secondaire et souvent négligeable dans la fixation des prix à cause du caractère quasi-illimité des marchés..."

Croyez-vous que ce soit vrai pour les produits de la ferme et, peut-être, de la pêche?

M. MARCHEAND: Je ne crois pas que ce soit cela; je pense ce que nous fixions à ce moment-là, c'était l'industrie de base, par exemple, le papier, l'aluminium, etc., etc.

M. LE COMMISSAIRE MARTIN; Maintenant, c'est juste une question pour préciser un peu, à la page 3, vous dites, dans l'avant-dernier paragraphe:

"Il est évident que les salariés canadiens ne sont pas libres de fixer leurs salaires suivant leur caprice."

Je vais vous demander une toute petite question: Croyez-vous qu'il y a beaucoup de gens qui sont libres dans le commerce de fixer leur prix de vente comme de fixer leur prix d'achat?



M. MARCHAND: Non, il n'y en a pas beaucoup mais ceux qui peuvent le faire ont de l'influence considérable parce qu'il y a un président d'une compagnie qui m'a déjà dit, lors de négociations avec une compagnie considérable, enfin si on voulait aujourd'hui, mais nonobstant la poussée des prix, hausser notre prix de 25 p. 100, on pourrait le faire sans affecter sérieusement notre marge de profit de notre entreprise; c'est-à-dire, que, à un moment donné, on peut changer arbitrairement les prix et mettre tout ce que le marché peut absorber.

M. LE PRÉSIDENT: C'est parce qu'il n'y a pas de concurrence.

M. MARCHAND: C'est parce qu'il n'y a pas de concurrence, c'est cela que nous visons. Alors, évidemment, il n'y a pas la même concentration pour les ouvriers.

M. LE COMMISSAIRE MARTIN: Une partie de ce mémoire, en somme, n'a pas les mêmes implications quand vous les considérez en relation avec le problème de l'alimentation.

M. MARCHAND: Ça n'a pas tout à fait les mêmes implications, nous sommes d'accord.

M. LE COMMISSAIRE MARTIN: Parce que vous parlez de la limitation arbitraire de la production, par exemple, croyez-vous que, en agriculture, on puisse tellement limiter la production de façon arbitraire, parce que la ferme c'est une entité et elle a besoin,



en fin d'année, un revenu pour pouvoir se maintenir, et, sur la ferme, comme dans n'importe quelle entreprise, chacun essaie de retirer le maximum de ressources à sa disposition, et je crois que ces ressources ne sont pas limitées.

M. MARCHAND: Tout ce que vous nous dites au sujet de la ferme, nous sommes d'accord, tellement d'accord que nous n'avons pas voulu la couvrir par le plan.

M. LE COMMISSAIRE MARTIN: C'est parce que l'on réfère d'une façon particulière au problème des vivres et que, par définition, on les retrouve d'abord en grande partie à la ferme.

M. MARCHAND: Oui; bien, c'est que l'enquête porte sur les écarts de prix. Alors, nous autres, à priori, mais au point de départ on trouve que le problème ne se pose pas au niveau de l'agriculture; c'est entre les deux, entre le consommateur et l'agriculteur que le problème se pose. Maintenant, ce qui nous frappe, c'est là que nous trouvons que notre formule a du bon, il manque des secteurs intermédiaires, et même les recherches qu'on a pu faire, et le congrès du travail de son côté, n'a pas pu nous donner les informations afin de se former une opinion juste. Alors, nous croyons que l'obligation de se soumettre à l'arbitrage volontaire des prix va nous fournir une façon constante et régulière de porter une juste évaluation des prix dans ce domaine-là.



M. LE COMMISSAIRE MARTIN: Est-ce que je dois déduire de ce que vous venez de dire, lorsque vous parlez, par exemple, à la page 1, de l'écart des prix trop prononcés, que ces écarts de prix trop prononcés qui existeraient, ce que vous dites ici, se retrouveraient plutôt dans le domaine de la transformation que dans les autres secteurs, si vous le voulez, le commerce; c'est votre idée.

Juste une autre question, monsieur le président. A la page 1, vous dites dans les dernières lignes "nous voulons souligner la conclusion principale de ce mémoire", vous vous référez au mémoire du Congrès du travail canadien, à savoir que les hausses des salaires payés dans l'industrie alimentaire ne sauraient être en aucun doute la cause des écarts de prix; est-ce que vous voulez dire par là, parce qu'il y a évidemment des augmentations de prix au niveau des denrées alimentaires, est-ce que vous voulez dire, parce que aussi il y a un fait, les salaires ont augmenté - je n'ai pas à dire ou à apprécier si l'augmentation est suffisante, ou trop grande, ou juste - mais, est-ce que vous voulez dire par là qu'en aucune façon dans ce plan, ou ce prix, que l'on paie, il n'y a pas un peu du salaire additionnel que reçoivent les travailleurs?

M. MARCHAND: Ce n'est pas cela que l'on veut dire, parce que cela voudrait dire, autrement, on pourra indéfiniment mettre l'item salaire dans un prix et ça ne changerait jamais un prix sur un item ou entre la fixation de prix. Mais, disons que



l'augmentation des salaires par rapport à l'augmentation des prix, cette augmentation-là qui a été accordée justifie la différence de l'augmentation des prix.

M. LE COMMISSAIRE MARTIN: Alors, ça peut être, si vous le voulez, partie des raisons que vous dites, ce n'est pas là la cause, la seule raison.

M. MARCHEAND: Je suis convaincu que si vous doublez les salaires au Canada vous allez être obligé d'augmenter les prix.

M. LE COMMISSAIRE MARTIN: Je comprends que cela ne peut pas être la seule cause, mais cette augmentation, ou ce facteur du coût a contribué une partie, peut-être moins que sa part ou plus, je suis incapable de le déterminer, mais a contribué pour quelque chose, alors, il y a l'interprétation à donner à votre affirmation, si je le comprends bien?

M. MARCHEAND: Oui, l'interprétation, je ne crois pas que l'augmentation des salaires est la cause, ou, enfin, est responsable aux abus dans l'écart des prix que vous êtes appelés à étudier; ce que nous n'admettons pas, enfin, ce n'est pas la cause des abus dans l'écart des prix.

M. LE PRESIDENT: Est-ce que vous pourriez changer le mot abus pour problème jusqu'à ce que le jugement soit rendu?

M. MARCHEAND: C'est parce que nous autres, nous nous sommes fait une opinion et la nomination de la commission est déjà un fait de présomption qu'il y a eu des abus.



M. LE PRESIDENT: Enfin, on ne peut pas vous empêcher de penser comme on pense.

M. MARPOUND: C'est cela, on n'est pas la commission.

M. PELLETIER: On est des gens qui venons exprimer des opinions, et s'en est une que nous avons.

M. LE PRESIDENT: Est-ce que vous avez fait une étude de cet écart des prix aussi élémentaire soit-elle, . . . est-ce que vous avez fait une étude pour justifier un peu cette opinion?

M. MARPOUND: Voici: Nous sommes évidemment une organisation syndicale, nos gens s'aperçoivent que les prix augmentent, ils croient, à tort ou à raison, que la commission pourra apprécier que ce n'est pas à cause de l'augmentation des salaires; ils s'aperçoivent que les salaires ne montent pas aussi vite que les prix. Maintenant, la partie recherche que nous avons voulu faire, elle est dans le même sens des recherches du congrès du travail du Canada. Nous aurions pu venir répéter à peu près la même chose, ce qui n'aurait été d'aucune utilité pour personne parce que cela existe déjà.

M. LE PRESIDENT: Je crois que ma question prend un sens ou'elle n'avait pas; vous avez dit que l'abus dans l'écart des prix, n'est-ce pas, c'est cela que vous avez dit, on ne parle plus de l'augmentation des salaires comme la raison unique ou partielle de l'écart des prix augmentés, mais, vous avez des



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TORONTO, ONTARIO

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préjugés, du fait qu'il y avait de l'abus dans l'écart des prix présentement, mais seulement c'est le problème que nous étudions. C'était la seule raison de ma remarque.

M. MARCHEAND: Je crois que nous représentons bien la pensée ou les préjugés de nos milieux quand nous écrivons ce que nous avons écrit.

M. LE PRESIDENT: Vous êtes au courant que, dans le secteur alimentation, l'écart des prix est moins prononcé que dans tous les autres domaines de l'activité économique? C'est ce qui ressort des mémoires que nous avons reçus.

M. MARCHEAND: Nous n'avons pas eu la chance de lire tous les mémoires que vous avez en mains, quand ils seront publiés nous ferons les comparaisons et nous tirerons des conclusions si nous sommes en mesure de le faire.

M. LE COMMISSAIRE MARTIN: C'est tout pour moi, monsieur le président.

COMMISSIONER MacKICHAN: First, I would like to thank you gentlemen for giving those of us who have only one language^a translation to accompany the original brief, we do appreciate that very much.

Now, I think I understood a part of the discussion, I think your suggestion for an arbitration Board or a conciliation Board, and I don't think for our purpose just now we need differentiate between the two, or the different interpretation; I think it's a matter of making the distinction. You have certainly



interested the commission very much. We have had a number of suggestions that people should have more information, there should be an educational department set up, but this is the first real, well, arbitrary thing that has turned up. Now, when we go through and set up all these Boards mentioned, or one or two, or several, as necessary, and a national Board of Appeal, what is the final court of appeal who makes the decision in the end?

MR. MAPCHAND: Well, there is no decision, as I told the Board, nobody decides; there is no award. Just, let's say, some kind of recommendation not to increase or to increase, that's all the Board does, it's not a decision.

COMMISSIONER MacKICHAN: So, we have created a number of Boards, and it's an open end.

MR. MAPCHAND: Well, it's an instrument that can be used or that is, or that would actually be used by the public to know what is going on in the field of prices and, of course, as I have mentioned a few times, we are in the same situation as in the labour field, we have to come before the Board and say this. We have public meetings and the public may form its opinion on the request filed before the Board and offer to exercise pressure in one direction or the other, and that's what we want in the price field, that's all; we don't want anybody to decide anything. We want the enterprises and the economy to be free, but to be free, I think that we have to know what is going on and the



problem now is we don't know what is going on. We don't know why the Aulminum Company of Canada increases its prices; we don't know why the wholesale prices are increased, it may be it's fully justified, maybe it is written down, we can have that and distribute that to the public and, after that, we can use our opinion and exercise pressure wherever it is good to exercise it.

COMMISSIONER MacKICHAN: We have conciliation boards where sometimes they agree and sometimes there is a majority report and a minority report. Now, the labour dispute in Nova Scotia became bitter towards the end and each member prepared a separate report, they couldn't agree at any point. So, a board has a dispute and there is a discussion and some information is given, there is nothing arbitrary about a board at all, it's a matter of making suggestions and recommendations and some publicity.

M. MARCHAND: Yes.

COMMISSIONER MacKICHAN: And that sort of thing.

M. LE COMMISSAIRE MARTIN: Monsieur Marchand, j'essaie de concilier ce que vous venez de dire avec ce que je retrouve à la page 5 où vous dites: "Aucun producteur tombant dans le champ d'application de la loi ne pourra augmenter ses prix..." s'il ne peut pas augmenter ses prix, cela doit être "avant qu'un mois ce soit écoulé depuis la publication de la recommandation..." S'il ne peut pas augmenter ses prix, c'est-à-dire qu'il y a une certaine autorité accordée à ce tribunal.



Est-ce que, s'il le fait contre la recommandation du tribunal d'arbitrage, est-ce qu'il va être pénalisé de quelque façon, ou si l'on va simplement livrer à l'opinion publique la publication de ce qu'il a fait?

M. MARCHANT: C'est-à-dire, enfin, présumons que c'est un producteur qui augmente artificiellement son prix, disons qu'il contrôle son marché de prix et qu'il peut le forcer en augmentant d'une façon trop grande, il va être obligé de soumettre sa requête au tribunal d'arbitrage des prix. Vous constatez que ce fait de la rendre publique ensuite, il sera libre de l'augmenter ou de ne pas l'augmenter, seulement le public saura que telle entreprise a augmenté ses prix sans, apparemment, de justification. C'est la seule façon, nous disons que c'est l'essence même de la démocratie. Nous ne disons pas que c'est facile, mais tout le contrôle dans une démocratie, tout le contrôle nous vient de l'opinion publique.

M. LE PRÉSIDENT: Est-ce que ce n'est pas là du dirigisme?

M. MARCHANT: Du dirigisme de l'opinion publique?

M. LE PRÉSIDENT: Nous vous demandons si ce n'est pas là du dirigisme au niveau du gouvernement?

M. MARCHANT: Non, ce n'est pas du dirigisme au niveau du gouvernement, mais au niveau de l'opinion publique; dans ce sens-là cela voudrait dire



que nous avons du dirigisme dans les salaires.

M. LE PRESIDENT: Je ne dirai pas non, cela existe parfois.

M. MARCHAND: Pas parfois, il n'y a pas de dirigisme à l'endroit de l'autorité qui fixe des prix ou du salaire, cela n'est pas du dirigisme, il s'agit là d'informer l'opinion publique qui s'exerce sur une question. Vous avez à l'heure actuelle, par exemple, le conflit des chemins de fer et l'opinion publique canadienne va exercer une pression sur une partie ou sur l'autre, ou les deux, et ce n'est pas du dirigisme, seulement de la démocratie bien placée.

M. LE PRESIDENT: Alors, vous faites une nuance?

M. MARCHAND: Ah oui, nous faisons une nuance.

COMMISSIONER WALTON: I don't know whether something that you said just a moment ago, I'm sorry, when you speak fast I can't pick^{it}/up in French, but it just occurred to me that in all these things, we are in a part of the time and even your industries which include your labour and all the rest, when you have your negotiations, I just wonder if it occurred to you to invite in the public, wouldn't that be a way of democratizing all these Boards; it's just an idea.

MR. MARCHAND: Well, that's a good idea and we think that it is done because often, according to the law, you have the government representative in the picture and, at this moment, he is supposed to



represent the public. I don't say that he does that very well.

COMMISSIONER WALTON: No, I mean in the original negotiations, when you can't agree.

MR. MARCHEAND: Oh, in the original negotiations.

COMMISSIONER WALTON: It might have some merit.

MR. MARCHEAND: Well, it has some merit, of course.

MR. MATHIEU: It would certainly be helpful to us, because we are sure the public would be on our side every time.

THE CHAIRMAN: Right or wrong?

MR. MARCHEAND: If there is ever a Board instituted to study labour relations in Canada, I hope you come to present a brief and submit that to us.

M. LE PRESIDENT: Alors, messieurs, une couple de questions encore au sujet desquelles il serait très intéressant d'avoir votre opinion. D'abord, je ne sais pas par laquelle des deux commencer, mais je vais commencer par le problème de l'exportation, n'est-ce pas au niveau de la ferme.

Il y a des exportations au niveau de la ferme et, tout à l'heure, à la suite d'une question de apparaît
M. Martin au sujet du paragraphe où/le mot arbitraire,
arbitraires
à la page 2, les limitations/de la production. Alors, je ne veux pas revenir sur la question de M. Martin, peut-être s'il y a des recommandations sous la



production, il y a sûrement très souvent, et peut-être actuellement, trop de surproduction dans les produits agricoles, c'est un problème considérable qui nous touche un peu, ce n'est pas tout à fait notre problème à la commission, mais il nous touche tellement que j'aimerais avoir vos opinions, si vous avez étudié le problème. Eh bien, dans le cas typique où on ne consomme que 20 p. 100 de la production actuelle, qu'est-ce qu'il fait, a-t-il un programme de surproduction?

M. MARCHANT: C'est parce qu'il y a un programme de surproduction, et surtout dans l'agriculture comment le résoudre sans l'intervention de l'Etat pour acheter la surproduction, et où il y a des subsides, etc., etc. Nous ne voyons pas d'autres moyens, non pas seulement pour régler le mécanisme de la concurrence libre des prix, et cela c'est de l'étatisme ou du dirigisme et jamais personne ne s'est opposée à cela, seulement nous autres quand, en effet, on s'oppose, à part de cela, tout le monde est d'accord. Je ne vois pas d'autres solutions, surtout dans le cas où il y a un million de boisseaux de blé au Canada de surproduction, bien c'est clair que c'est un problème que seul l'Etat peut résoudre. Je ne connais pas un producteur de blé qui peut le résoudre.

M. LE PRÉSIDENT: Est-ce que l'on ne pourrait pas^{en} arriver à un moment donné, au niveau même de l'Etat,^{ou} le problème soit quasiment insoluble?

M. MARCHANT: Ça ne pourrait pas.



M. LE PRÉSIDENT: Alors, qu'est-ce qu'on va faire?

M. MARCHAND: L'Etat va être obligé d'intervenir. Dans le domaine de l'agriculture et dans le domaine de l'ensemencement il se fait un contingentement de tout ce que vous voulez pour la surproduction de façon permanente.

M. LE PRÉSIDENT: Alors, vous allez y remédier en quelque sorte d'une façon quelconque?

M. MARCHAND: Là ce n'est pas une limitation en vue de concurrencer les prix, ce n'était pas en vue de faire augmenter les prix mais d'éviter la surproduction, bien, c'est peut-être, c'est une perte nette pour la nation.

M. LE PRÉSIDENT: On peut prévoir des cas tout de même où le gouvernement pourrait pratiquer une limitation de la production.

M. MARCHAND: Oui, mais pas pour augmenter les prix.

M. LE PRÉSIDENT: Bien, vous l'avez dit. Alors, l'autre question c'est celle-ci. Je crois que celle-ci va être un peu plus, peut-être, intéressante. Quelle est votre opinion sur la question des profits dans l'entreprise? Qu'est-ce que vous voulez, il n'y a pas d'autre façon de poser la question. On a comme mandat de déclarer si les profits sont raisonnables ou excessifs, alors, d'abord, premièrement, êtes-vous en faveur des profits ou contre les profits? Ça

peut se poser, ça fait cent mémoires que nous avons devant nous et toutes sortes d'opinions ont été exprimées. Si, évidemment, quelqu'un est contre, on ne peut pas discuter de son opinion, c'est suffisant pour résoudre un problème. Mais, si on reconnaît la légitimité des profits, à quel niveau; on ne vous demande pas de répondre pour tout réaliser d'avance, mais, à quel niveau?

M. MARCHANT: C'est parce que précisément, monsieur Couvrette, comme homme d'affaire, si vous étiez à ma place vous répondriez d'une façon très générale, parce que quand vous me demandez, d'abord, mon point de vue sur le principe même des profits, je pense qu'il n'y a rien de mal à s'opposer en principe au profit. Disons, comme c'est la même chose, que nous ne pouvons pas nous opposer en principe au profit. Je crois que le profit ne peut pas être le principal motif de l'activité économique; je crois que c'est le service qui est le principal motif, mais il est légitime de dire qu'il y a des entreprises que nous concevons sans profit, ou sans l'intérêt de profit, autrement tout le mécanisme est trouqué. Partant de ce point-là: qu'est-ce que le profit légitime? Là, peut-être dans chaque industrie, il s'agit d'établir quel est le pourcentage de profit; ça ne peut pas être la même chose pour tous les secteurs, c'est clair. Il y a des secteurs où l'on accorde des profits qui sont - quand la compagnie Bell Telephone - pour ne nommer personne - fait demande d'augmentation des prix simplement parce qu'elle ne



veut pas demander de nouveaux capitaux et elle dit je m'en viens chercher du capital dans la poche du consommateur, voici, cette même entreprise privée dit, j'ai droit à des profits sur le capital ramassé par le consommateur, nous ne sommes pas d'accord fondamentalement pour dire cela. Là, je voudrais étudier chacun des secteurs et je ne voudrais pas considérer votre question d'une manière trop générale.

M. LE PRÉSIDENT: Vous ne m'en voudrez pas, je voudrais bien voir le problème réglé et je vous avoue que la solution n'est pas facile.

M. MARCHANT: Nous sommes bien d'accord.

M. LE PRÉSIDENT: Eh bien, messieurs, il ne me reste qu'à vous remercier infiniment d'être venus et de nous avoir présenté un mémoire. Je voudrais que la solution d'un juste milieu soit applicable et, de cette façon, on réglerait le problème.

(The following follows.)





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Submission of
CANADIAN WHOLESALE GROCERS ASSOCIATION

Appearances:

Mr. Aime Boisvert Executive Vice President

M. LE PRESIDENT: Monsieur Boisvert, je
crois que nous devons vous remercier d'avoir bien
voulu nous permettre d'entendre ces Messieurs.

M. BOISVERT: C'est avec le plus grand des
plaisirs, Monsieur le President.

M. LE PRESIDENT: Alors, voulez-vous, s'il
vous plait, proceder a la lecture de votre memoire?

---EXHIBIT NO. 92: Submission of Canadian
Wholesale Grocers Association.

MR. BOISVERT: Mr. President, Mrs. Walton
and Commissioners: Already in past hearings, your
Commission has had occasion to meet with some members
of the particular industry which we represent here
today. And from them, you will have secured
information of a scope and type which is not general-
ly available in the data collected by any source.

I refer to the questionnaire which the
Chairman was kind enough to supply me with a copy of
and which I made up my mind to cooperate with the
Commission if I could, so I took the opportunity of
circularizing it in my Association in general and
received a cross-section of replies which indicate



to me that Section 1 is of a nature that only individual operators can reply to. Sections 2 and 3 called for answers of which I received sufficient samples to discover opinions were not necessarily alike, depending on the operators, and I have it in my following remarks and it will probably come out in your questioning later.

In your questionnaire to the food distributors the situation under study was in part thus described: 'During the period from 1949 to the present, there have been a number of changes in the relationship of prices of food products at the farm and fishery and at retail, with the former having declined relative to the latter since 1951.'

And paragraph 2 of the terms of reference of this Commission reads: 'Determine whether or not such price spreads are fair and reasonable, or are excessive in relation to services rendered.'

Finally, extracting two paragraphs from a report of a previous hearing our industry receives this challenging message: Dr. Stewart is being quoted in the Montreal Gazette: "Middlemen generally, he said, tend to emphasize that freedom of competition, as unfettered as possible, is the only way to reduce the price spread.

'Much of the testimony seems directed at whether or not the middleman is getting too large a share of the total price. Dr. Stewart said this



question is receiving the closest scrutiny by the Commission.'

It is a secret to no one that wholesalers such as ourselves are the image that takes instant life in the mind of most, at the word "middleman". And to the extent that wholesaling is an inseparable function from the total marketing system which accounts for a widening spread between the primary producer's price and the price paid by consumers, we are here on behalf of an industry which in recent years has gone through some most spectacular transformations.

To describe these transformations, which are at this moment in vigorous progress, we shall quote from observations made on June 25, 1958, by Dr. Rudolph L. Treuenfels, at the Wholesaling Sesquicentennial, on the occasion of the 40th National Conference of the American Marketing Association.

Proceeding from the days when the wholesaling function was chiefly physical, Dr. Treuenfels was explaining how through the years, and more particularly during the past four decades, wholesalers have had to continuously confront themselves with the challenging question:

'What Really Is My Business?'

And he goes on: 'Fundamental changes in concept and in procedures came from answers that were quite unorthodox.'



'They replaced old and simple assumptions. No longer was it deemed sufficient to act as selectors, assemblers and prime movers of varied assortments of merchandise, to buy astutely at the lowest possible price and to pass goods on at 'best obtainable profit'. Rather, it was found that it had become essential to increasingly take both the customer's and the supplier's position into account.' That is the truest sense in which we are middlemen.

'Facilitating the flow of merchandise from the provinces of production to the realm of consumer outlets, wholesalers had always acted as bridge builders and road architects.

'Nowadays, the role of a teacher or a healer seems to be included in their calling. Many wholesalers regard it as an essential part of their business to not only keep customers alive, but to strengthen them to the point where they will be certain to withstand the perils of all forms of competition.

So much for the change in concept, which by heightening the duties of the wholesalers, has made him a mentor, a trusted advisor and friend of his suppliers and customers. And the best exponent of this 1958 edition of a wholesaler, is the food wholesaler. In Canada, as in the United States, the most significant changes in food wholesaling have nearly all taken place since the year 1948, within



the period under particular scrutiny by this Commission.

In describing sketchily below, the 1958 model of food wholesaler, we shall be describing a type, and not the average distributor. We lay no claim to our "type" representing a numerical majority. But he may well represent well above 50 per cent of the leadership, the vigor, the competitive sinew of the industry.

Our wholesaler acts as:

A) A sales strategist not only for himself but also for his customers;

B) An educator at large capable of modernizing not only stores but the people who run them as well;

C) a provider of highly skilled specialists who keep up with latest technical advances and who can aid their accounts in doing a better job.

And his complement of services through which he plays this triple role are as follows:

1) A master plan which embodies operating standards at wholesale and retail. From soliciting every conceivable account within his territory, he will shift to some system of "customer selection", and in due time he is likely to arrive at establishing a policy of "Minimum orders". While concentrating his merchandizing efforts with the larger accounts, he will seek to continue servicing the smaller operator



through a low cost "cash and carry" department.

2) Store supervision. The retailer receives a preprinted order form or catalogue of the entire supplier's assortment on a regular schedule, enters his requirements by checking blank spaces opposite the items wanted and mails it in. Instead of the salesman who came in to sell him, the retailer now welcomes the distributor's supervisor to help him sell. This man is an all-around competent manager. He will be able to go over records and reports, and check the performance of each department, determine weaknesses, lend a hand on displays, promotions. In a larger operation, the wholesaler often has specialized supervisors for meats, groceries, frozen foods and produce.

3) Store Engineering. In this area, sometimes at a service fee, sometimes as a free service provided by the wholesaler himself, the retailer gains access to professional counselling on the erection of a new store, remodelling of the old one, advice on layout, equipment, lighting, decorating, etc.

4) Advertising. The wholesaler maintains an advertising department which takes complete charge of retail advertising through all media, as well as of in-store materials.

5) Accounting. One of the newest services, at least in its more extensive form, this is also one of the most important. It may range from a basic



service of taking inventory and furnishing periodic profit and loss statements to a comprehensive one including weekly departmental analyses, performance reports, and tax service.

6) Financing. The distributor has had to face up to the crucial problem of helping to obtain funds for the independent retailer who has the desire and ability to expand but lacks the means. He may do this in a number of ways -- just by assisting the retailer to seek out and obtain financing; by co-signing leases or by leasing and sub-leasing; or by actually setting up funds to be lent to retailers who measure up to prescribed standards. Just about two years ago, in a forecast for 1957 by a Michigan distributor in the magazine "Wholesale Grocer News," we could read: "There are no two ways about it, the competitive challenge of 1957 is not basically in the operations field of wholesaling and retailing. Independents have proved that they can equal or better the performance of the chains. Our challenge now is to develop the kind of financial corporations that will match the present facility of the large chains to secure large sums of capital with which to establish the stores and warehouses to take advantage of the expanding food market.'

7) Real Estate. With the tremendous pace of the supermarket building programme of the last decade, the competitive situation in food retailing has been



described as "a battle of locations". The matter of a profitable location, with high traffic potential, proper parking facilities, etc., has become a very scientific matter. The modern distributor may have an expert on his staff making constant studies of location prospects in his area. Or he may have a contact with a real estate consultant for this service.

8) Merchandising. Wholesalers must think continuously of ways and means to teach better merchandising methods. They act on the conviction that their customers being given intelligent help will enhance their ability to move goods faster and in larger quantities. It means getting the merchandise not just "on", but "off", the retailer's shelves.

9) Training. Many operations provide regular training both in periodical sessions and on the job. Specific courses are being provided for clerks entrusted with functions requiring particular knowledge and ability.

10) Communications. Carefully edited and often elaborately produced regular communications carry instructions and advice from headquarters to the retailers.

Before a commission inquiring into the increasing spreads in distribution costs, this partial array of services may loom as a partial explanation of the increases. We are pleased to report that such



is not the case however. For the modern wholesaler has not contented himself with exceeding the walls of his office or warehouse, to apply himself at influencing the movement of goods at the retail "front line". He has effected an impressive job of good housekeeping at the head office, and has become a "low-cost operator."

To be competitive against strong chain opposition, independents must receive their goods at a cost which will enable them to price competitively. This, to the wholesaler, indicates the necessity to keep his own costs rigidly under control.

To do so, he must acquire the most efficient plant, equipment, and methods. Our "type" wholesaler has a one-floor warehouse, probably constructed during the past five or six years. He will have freezer space for frozen foods, coolers for dairy and produce, banana and tomato ripening rooms. The warehouse will be palletized for maximum utilization of space, mechanized for high velocity movement with lift trucks, towlines and possibly electronically-guided tractors pulling order assembling "trains".

In his office he will have mechanical billing and tabulating equipment. And finally, as we will be able to show in the set of figures below, he has been able to resist the relentless upward pressure of operating costs by counter-measures of his own in the form of rigorous efficiencies and economies.



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In Canada, the effects of these counter-measures
are readily obvious from the following comparisons:



GROSS PROFIT
TOTAL OPERATING EXPENSES
AND
NET OPERATING PROFIT FOR VARIOUS TYPES OF
* Wholesalers

(Percentage of Sales)

Year	Grocery Wholesalers			Fruit & Vegetables			Tobacco & Confect.		
	Gross Prof.	Operat. Expense	Net Op. Profit	Gross Prof.	Operat. Expense	Net Op. Profit	Gross Prof.	Operat. Expense	Net Op. Profit
1947	8.07	6.39	1.68	9.13	7.77	1.36	6.85	5.17	1.68
1949	7.73	7.09	.64	10.57	9.44	1.13	7.14	5.55	1.49
1951	7.96	7.01	.95	11.27	10.33	.94	7.55	6.24	1.31
1953	7.66	7.20	.46	11.79	11.05	.74	7.63	5.53	1.10
1955	7.20	6.82	.38	11.5	10.87	.63	7.33	6.75	0.58





Year	Drug Wholesalers			Dry Goods			Hardware		
	Gross Prof.	Operat. Expense	Net Op. Profit	Gross Profit	Operat. Expense	Net Op. Profit	Gross Profit	Operat. Expense	Net Op. Profit
1947	12.77	10.62	2.15	16.64	12.13	4.51	20.14	13.53	6.61
1949	12.43	9.91	2.57	15.73	13.39	2.34	19.26	14.02	5.24
1951	13.43	10.95	2.48	16.96	13.86	3.1	20.49	13.76	6.73
1953	12.36	10.44	1.92	16.01	14.37	1.64	19.41	14.57	4.84
1955	11.81	9.50	2.31	16.43	15.09	1.34	19.17	15.16	4.01
Heating & Plumbing									
Year	Gross Prof.		Operat. Expense		Net Op. Profit				
							Gross Profit	Operat. Expense	Net Op. Profit
1947	20.66		11.61		9.05				
1949	19.07		11.90		7.17				
1951	17.78		11.97		5.81				
1953	17.14		12.65		4.49				
1955	16.44		13.36		3.08				



The first observation that offers itself from these compilations is that while operating costs and sometimes gross profits have been pressed upwards in most fields at wholesale, they have declined in the wholesale grocery field, from 7.09 cents per dollar in 1949, down to 6.82 cents per dollar in 1955. These are national averages. It will also explain the fact that manufacturers at one time looked askance at the middleman but they are returning to him and there are many who have come back who were doing their own work, and there are still many coming back today because we can do the job better than they can. The performance has known some variations from one region to another, Maritimes moving from 7.21 to 7.56, Quebec from 7.30 to 5.72, Ontario from 6.79 to 6.40, and the Western Provinces from 7.13 to 7.18, during the same period 1949 to 1955.

In terms of the subject under study, the following observations come to us.

1. Percentages as we have just looked at them are in a way efficiency indexes.

2. The ones we have submitted indicate a downward operating cost at wholesale. Although we lack the 1957 compilation, we can only logically expect further reduced overall margins because of the number of new voluntary groups that have come into being since the end of 1955, and of the multiplying low-cost cash and carry, and cash and carry self-



service warehouses during the same period.

3. Although our type wholesaler and the food wholesaling industry in general have staged some spectacular feats of simplification and economies, it must be remembered that it is grocery wholesalers who have continuously assumed the indispensable function of supplying each and every retail outlet in the country regardless of size, type of operation, or location.

If food wholesalers as we know them now are not the immediate cause of increasing spreads, where then should we look? Where are the middlemen who are getting a larger and larger slice of Mrs. Consumer's dollar so that the primary producer's share thereof is a constantly shrinking one, relatively?

We should like to quote an article from the Biddle Purchasing Bulletin (New York, November 1955) on the eve of an election year:

"Down with the Middlemen! . . . Every so often some vote -- hungry Congressman gets what he thinks is a brand new idea for pleasing his constituents. He'll go after those big bad middlemen again. They are the ones who keep prices so high the common people can't buy everything they want.

Next year will run true to form. We are promised an investigation of all the rascals who stand between original producer and ultimate consumer.



The 'middlemen.' And who are the middlemen?

The railroaders, the truckmen, the long-shoremen, the road repairers and builders, the country grain elevator operators, the clerks in the banks, the distributor, the wholesaler, the retailer, the insurance salesmen who sell the risk policies and the cop who protects the goods in transit, the ice man and the boiler maker, the stockroom boy and the coffee roaster, the printers who set the price lists in type, the copywriters who compose the ads that stimulate sales, the postmen who carry the orders and acknowledgements, the telegraph boy and the telephone operators, the accountants who figure earnings and taxes, the man in Wall Street who supplies the equity capital and even the Congressmen who skim off enough in taxes to pay their own salaries. And the biggest middleman of all is Uncle Sam, standing with outstretched hand for his 'take' of close to one dollar of every three. These are the middlemen. These and many more. These are the rascals the vote-hungry Congressmen are attacking.'

We believe that these innumerable intermediates have come out of progress, pure and simple. There used to be a time when the primary producer was the maker of his product and assumed a larger portion of the marketing function. When he went directly to the market place he was wholesaler and retailer of his product, and secured 100 per cent of the



consumer's dollar. Just as there was a time when the cobbler making shoes did likewise secure a vastly superior share of the consumer's dollar of his time than does any one single factor in shoe marketing to-day.

Who will challenge:

a) The indispensability of the functions discharged by these many middlemen in a dynamic economy?

b) The inevitability of a more and more finely divided distribution of the marketing tasks as men of resources exercise their inventiveness, submit the products of their talent to consumers' acceptance, and finally discover that acceptance has become established consumers' demand.

While we are on the matter of consumers' demand it might be interesting to hear the findings of a survey conducted some four years ago by an important Montreal food organization. In answer to a questionnaire asking customers to list in order of importance the points that would make a steady satisfied customer. We are quoting Mr. Nathan Steinberg. "175,000 replies were received. Here are the results. Here are the opinions of thousands of our customers; these answers are listed in the order of voting:

- | | |
|----------------|----------------|
| 1. Cleanliness | 5. Value |
| 2. Freshness | 6. Variety |
| 3. Quality | 7. Convenience |
| 4. Courtesy | |



It is to be noted that price ranks fifth. In short, we believe that consumers, possibly through this Commission, and eventually through those whose function it is to enlighten the general public, should be better informed of the increasing complexity of the marketing system of which they are a part, and from which a large portion of them derive their very livelihood.

And we believe that likewise, primary producers, and the various departments of agriculture should apply themselves to supplementing their efforts in the areas of production and agricultural research, by equal efforts in the area of marketing.

M. LE PRESIDENT: Bien, monsieur Boisvert, je vous remercie.

Nous constatons, et je dois le faire remarquer, que ce memoire est presente aux noms de la 'Canadian Wholesalers Association' et de 'L-association des epiciers en gros de la province de Quebec' conjointement.

M. BOISVERT: C'est exact, j'ai mandat de chacune de ces associations, monsieur le President.

THE CHAIRMAN: Well, I want to thank you, Mr. Boisvert. I think it would be indecent on my part to qualify this brief so I will let the members of the Commission do their work.

COMMISSIONER DRUMMOND: Throughout your brief you refer to the term 'our type of wholesaler',



and that suggests that there is at least one other type, possibly more than one other type. I want to just get it clear as to what the difference is between the type of wholesaler that you have outlined here and other wholesalers.

MR. BOISVERT: Well, the type of wholesaler -- I am sorry I did not make this completely clear -- the type of wholesaler I refer to is the one who has shifted from the previous concept of being a warehouser and a material handling expert into a merchandising entity which will assure promotion of products out of the retail stores in which he has placed them. His function becomes an overall distribution one; he is a type of wholesaler. There is at least one of them -- well, in the Canadian Grocer on July 19, 1958, there is a report on chain and group operation. The picture in there will reveal to you that while in 1950 there were, to my knowledge, some six such groups in Canada, you count today thirty-eight firms at this date. There are many more today, close to fifty-eight, thirty-eight operating **fifty-eight** different groups, some companies operating retailers' voluntary groups under one, two, three banners.

COMMISSIONER DRUMMOND: This would be, by and large, the larger wholesalers?

MR. BOISVERT: Not necessarily.

COMMISSIONER DRUMMOND: Not necessarily?



MR. BOISVERT: No, we find them in all sizes of operation.

COMMISSIONER DRUMMOND: But there would still be numerically only a minority of the total number of wholesalers; is that right?

MR. BOISVERT: I would say possibly a little over -- take broad percentages to be safe, between 25 per cent and 35 per cent of the per cent.

THE CHAIRMAN: In number?

MR. BOISVERT: Yes, in number.

MR. COUVRETTE: That would represent more than that in volume?

MR. BOISVERT: In volume that would represent to this date, taking the same fractions, between 25 per cent and 65 per cent of the volume has been independently under individual ownership.

COMMISSIONER DRUMMOND: At the bottom of page 3 you say:

"... it had become essential to increasingly take both the customers' and the suppliers' position into account."

The wholesaler is the party who takes the position of these other two parties into account?

MR. BOISVERT: Right.

COMMISSIONER DRUMMOND: In other words, he takes into consideration in making any changes in the business relationships between the three parties; is that right?



MR. BOISVERT: Essentially the marketing function as it involves the market, manufacturer, wholesaler and the retailer centres around one product, this one manufactured product to be brought successfully and effectively to Mrs. Consumer. I might require a few minutes to explain the new concept and then you will get the significance of it, and on this point we will touch upon the concentration of the business which was referred to in a previous presentation.

What is the first thought of concentration in a competitive field, in our competitive food field? Concentration appears to be the result of strategically and dynamically coordinated human resources apart from capital. It is not money, it is not capital that makes money, it is people. The individual, close up to the time when the wholesaler came into the picture, was one fellow staging a battle against organizations which embodied twenty-five, let us say, out of the twenty-five talents necessary to conduct a retail food business successfully today. The individual sort by contrast had a lot of what all of us have had, one, two, three, four strong points -- four talents. He may be an excellent handler of people, he may be an excellent seller, or he may have an excellent buyer, but he needs to be an excellent advertising manager, a competent sales training manager, or he has to be that anyway, an accountant,



a store engineer, a refrigeration engineer, a floor sweeper and a window washer and all things pertaining to the conducting of the food business as we know it today.

Now, through the volunteer group organization he has been brought about to share in the total attributes. As part of the total attributes within the reach of the total organization was the capacity to merchandise food for manufacturers in respect of which for services rendered there were advantages, monetary advantages obtainable propagated in theory and general practice to services rendered which he gains access to now. So in this new concept of our type, which is developing extremely rapidly month by month, the economic function of coordination is supplied for wholesalers.

COMMISSIONER DRUMMOND: Since these three parties, that is, the supplier, manufacturer, processor -- the manufacturer, or it may be the primary producer -- since the suppliers at one end and the retailers at the other have to work jointly with your wholesaler that does involve what we might call an integrated type of operation, is it not?

MR. BOISVERT: Yes, sir.

COMMISSIONER DRUMMOND: Now, the actual ownership of each of the three parties remains distinct and separate; is that correct?

MR. BOISVERT: It does with some exceptions



that call for extra work. If we think honestly there is an operation in the occurrence we refer to in the brief to the wholesaler acting as a participant in the race for choice locations, he may be sometimes ready before his next upgraded retailer is to procure a location and even offer the store cash and start operating there, and some day the parties pass it on to the first ready one. These use them, operate them, in their own name and to that extent have again partly corporate, partly independent retailing sponsors. There is a mixture.

COMMISSIONER DRUMMOND: Would it be correct to say that there is in fact a lot of contractual arrangements between the wholesalers and the retailers?

MR. BOISVERT: All types, depending on the size of the market and then that may be less, too, from information I received just recently, depending -- the basis for the strength of the contract has a direct relation with the strength of the market. It must be the choice of retailers willing for their own benefit to forego temporarily sufficient of their independence to know that eventually they will capitalize on it. I know of some contracts which are very strict, and, on the other hand, I know of some that are irrevocable within eight days and others where groups operate harmoniously without any more than a gentlemen's agreement.

COMMISSIONER DRUMMOND: What I had in mind



was that the person or the particular agency, in this case the wholesaler, who takes the initiative in bringing about this integrated type of arrangement, he is normally the agency which undertakes the decision-making process, makes major decisions on behalf of all parties; would that be right?

MR. BOISVERT: I would say exceptionally, not generally.

COMMISSIONER DRUMMOND: We hear these days a great deal about the development of this thing we call vertical integration, and I am just wondering if this is another indication of this general trend -- a pretty large indication, in fact?

MR. BOISVERT: Sir, are you directing this to me as relating to our own industry or to the industry in general?

COMMISSIONER DRUMMOND: I am thinking particularly of ---

MR. BOISVERT: The overall food field?

COMMISSIONER DRUMMOND: Yes.

MR. BOISVERT: Then the answer is in some cases, yes, to my knowledge.

COMMISSIONER DRUMMOND: Now, I take it that this is the development you say, with the significant changes that you have outlined here in some very real detail, have actually taken place since 1948 so far as Canada is concerned. Is there any reason why that particular starting date should have been



1948 rather than earlier or later?

MR. BOISVERT: Will you accept my interpretation as being the best effort?

COMMISSIONER DRUMMOND: Yes.

MR. BOISVERT: 1948 was the starting date in North America rather than in Canada: in Canada I think it started around 1952. The explanation, well, corporate competition, there are two teams with this -- the individually owned with the multiple access to enterprise, thirty some thousand plus, and with access to a job in the larger corporate organizations. That is the contract between the two teams, if you can think of it.



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During the war years expansion and store building was paralyzed by war regulations. Consumers were still being studied as to their behaviour by the most studious among those on both sides of distribution, and a larger impetus was given to building the supermarkets. That started around somewhere in 1934 and 1935; but when the resumption of the impetus took place after the war, with more ready money and by stimulation there have arisen some leaders in the food field; people in Minneapolis, St. Louis, Chicago, Buffalo have taken a part in the leaders and given an example, and their efforts have been such that at the end of 1956, for instance, the independents have attained in the United States a position where the independents have one hundred more supermarkets than all the corporate chains.

Those are the possibilities of dynamic intervention by the wholesalers. Does that answer your question?

COMMISSIONER DRUMMOND: Yes, very good.

THE CHAIRMAN: Would it be right to say, Mr. Boisvert -- when did you say it started?

MR. BOISVERT: In 1948 in the States.

THE CHAIRMAN: Would you agree that types of operation of great similarity, the type of operation we know today, existed previous to 1930 and in the 20's?

MR. BOISVERT: Yes. The voluntary group



movement is not new. I think I must have been remiss in one statement. It started as early as 1922, 1923, but most significantly in 1926 and 1927 when International started operating in the States. A number of such organizations took place in Canada as well just as early; I don't think we in Canada have ever been behind. Where we have been behind, we have been rather fast in catching up. This was before the day of mass marketing, but competitive factors did not bring about the same stimulation, the same sense of urgency as may exist today, and some lasted through the process up to 1952 and they have rejuvenated themselves and gone to work.

THE CHAIRMAN: Of course, the depression years certainly played a role in the change?

MR. BOISVERT: Yes. By 1939 or 1941 the corporate chain stores' position had declined in share of business, and the reason, possibly, I haven't gone into that -- I have tried to live within the terms of reference, but they are relative and very significant.

COMMISSIONER DRUMMOND: Would it be correct, Mr. Boisvert, to say that this whole development which has been started by this type of wholesaler has been, in a sense, the self-defence attempt to meet the competition provided by other corporate chains?

MR. BOISVERT: What date, please? You see, from 1952 to date we have publicly asserted that we are



not in business to defend ourselves, we are in business to advance. That is the climate under which we advanced, and no matter where we have come to, although we have not lost track of the curve, the business curves are still travelling somewhat this way. I have reason to believe that they will run parallel as they have in the United States.

COMMISSIONER DRUMMOND: Perhaps we can make this distinction. Like everything else, this development must have had a starting date, perhaps we might say, in its origins. Would that be the true explanation or the main explanation?

MR. BOISVERT: The starting date -- at the beginning the failures we were able to analyse. We looked at it defensively at the start, quite naturally.

COMMISSIONER DRUMMOND: Now, you make, to me, a very significant statement. On page 8, about the middle of the page, you say: "Our challenge now is to develop the kind of financial corporations that will match the present facility of the large chains to secure large sums of capital . . ." If you are successful in meeting that challenge and do develop the kind of financial corporations that will match the large chains, will these financial corporations be fundamentally different from this three-way type of setup that exists at the moment?

MR. BOISVERT: I am quoting here, and that part of the message is between quotation marks, depicting



the challenge of today. Although this is not in sight, not in immediate sight -- but I have it in remote sight -- the type of corporation that will do that in Canada. What was your question again in that case?

COMMISSIONER DRUMMOND: You mentioned here that your challenge is to develop the kind of financial corporations that will match the present facility of the large chains. What I am wondering is, if and when you do develop these large financial corporations, whether they will be something different from or a substitute for your present voluntary chains?

MR. BOISVERT: No. They will come in the immediate future. We don't see them as corporations such as depicted in the manner quoted here; we see it along with all of the other wholesale industries as a correction to the type of finance generally offered to small business.

In the food field particularly we have proven time and again that an independent is just as smart as the other fellow; the only fault is that he doesn't know it. He is equally smart and born with the same mental equipment and courage. He is and he has proven it, and all he lacks is the money, where five million would be available to the large concern. Where this -- and this problem we have taken before the federal government. I have met the Prime Minister himself in September on this score and other pressing



matters. As far as the food field is concerned, we would subscribe to long-range government financial assistance programmes, and right now we try to take advantage of whatever financial assistance we have and put it quite effectively to work. That is the area of our efforts now.

COMMISSIONER DRUMMOND: Your present objective, your present feeling, is, if you could get the financial assistance that your independent retailer really needs, you would like to preserve your present what I call three-way setup?

MR. BOISVERT: Yes. Like the farmer, the retailer is a small business man, small capitalist, and if he still means anything in Canada's economy and has access to free enterprise, I think this Commission will do well to look into that vital area of operation.

COMMISSIONER DRUMMOND: And you have pretty real confidence if this financial assistance could be provided your voluntary chain arrangement could hope to meet any competition any corporate chain could offer?

MR. BOISVERT: My confidence in that, sir, knows no bounds.

COMMISSIONER DRUMMOND: On page 11 you say: ". . . he has been able to resist the relentless upward pressure of operating costs by counter-measures of his own in the form of rigorous efficiencies and economies." I wonder if you would like to enlarge



just a little on that?

MR. BOISVERT: First of all, materials handling, and replacing the traditional lengthy assembly procedure by moving sacks of merchandise at one man's effort, say, fifty-five paces instead of one or four; economic handling, better use of cubic space, shortening of assembly line.

A new strategy is also described in there whereby he will handle gradually himself the assembly and delivery of those orders which are economically profitable. "Economically profitable" means profitable, still leaving the retailers fully competitive with the chain stores. Where it is no more economic -- and here is the selective process I have described earlier -- is an indication to the retailers to come and help themselves in a self-service kind of store. We will buy pretty well at the same price as the bigger fellow, but he will economize in the trucking; small orders are always a risky problem, he knows. Those are some; I could cite many more.

COMMISSIONER DRUMMOND: I would think you would say, wouldn't you, that you would hope to compete effectively by laying, as it were, the same kind of game, and perhaps even according to the same rules, but even doing it more effectively?

MR. BOISVERT: Yes.

COMMISSIONER WALTON: And the key to this is to help the efficiency of your retailer and get the added



volume so that he may do the retailing and get the turnover, and that enables you to provide those services?

MR. BOISVERT: Absolutely. One individual retailer -- where we start our curve is here. A man with no more than his share of normal resources is in competition with the total collection of talents. If you give him this assistance he is in business, but a single individual retailer cannot advertise a full page in The Citizen, but, banded along with others, they do it every week end, many of them, many groups.

COMMISSIONER WALTON: Do you charge at the present time any fees for this service, or is your increased volume able to offset the cost?

MR. BOISVERT: Completely offset. Despite those services the overall operating costs have come down, not only those operating costs but the national picture.

COMMISSIONER WALTON: Because I just noticed that some times a service fee was charged, at the top of page 7.

MR. BOISVERT: Actually the wholesaler agrees to sell to his retailers at his cost price plus what it costs actually to service him, nothing more, and keeping as his profit one or one and a half per cent. The lack of percentage profit is compensated by volume.

COMMISSIONER MacKICHAN: In the pages from



3 to 11 you describe this 20-cylinder 1958 kind of wholesaler, but my question is this: do statistics of the total gross profit and total operating expense include the four, six and eight-cylinder wholesalers?

MR. BOISVERT: Yes. The figures I have given are the overall. I have a suspicion that before your hearings are over you will get an example of the actual type of wholesaler I have described.

COMMISSIONER MacKICHAN: You speak of that as being the voluntary chain?

MR. BOISVERT: Yes. I have described the type. It is that type that enables him to see into the future.

THE CHAIRMAN: They are DBS figures?

MR. BOISVERT: Yes. The eventual reflection will be the sharing of business.

COMMISSIONER MacKICHAN: And the disappearance of the small wholesaler?

MR. BOISVERT: Yes, to some extent; that is unavoidable.

COMMISSIONER MacKICHAN: Unfortunate but unavoidable?

MR. BOISVERT: Yes.

M. LE COMMISSAIRE MARTIN: Monsieur Boisvert, d'après ce que vous dites, je peux conclure que le mot "cooperation" signifie le travail d'ensemble, et il ne peut y avoir quelque chose de plus.

MR. BOISVERT: Indubitablement.



M. LE COMMISSAIRE MARTIN: Je voudrais vous demander s'il y a eu des raisons particulieres pour que la marge de benefices, de benefices bruts, par exemple, que vous nous signale comme ayant determiner l'avantage du Quebec, s'il y a quelque raison particuliere qui puisse l'expliquer? Vous qualifiez, en sommes, ces marges ou ce pourcentage comme une declaration d'efficacite, cela veut dire que, dans le Quebec, il y a une plus grande efficacite, une plus grande concurrence.

M. BOISVERT: Une plus grande concurrence, c'est exact. Il n'y a pas d'autres explications. Les grossistes de la province de Quebec ont commence, des 1952, a avoir leur programme en ce sens, ce qui leur a fourni l'occasion de combiner leur marge de profit brut et creer des benefices, je crois, pour les groupes volontaires qui ont forme une noyaute de certains clientset qui ont procurer des commandes par des moyens superieurs, et la marge des profits a augmente. En plus de cela, il y a eu dans la province de Quebec l'apport des groupes volontaires qui sont en tres bonne sante.

COMMISSIONER MARTIN: May I ask you a question in English about the last word in your brief, because I know a man who may be very interested in your comments about the ---

MR. BOISVERT: What page?

COMMISSIONER MARTIN: The last words of



your brief.

MR. BOISVERT: "Area of marketing"?

COMMISSIONER MARTIN: Yes. You mention efforts in the area of marketing. What would you have in mind?

MR. BOISVERT: I have this in mind. May I offer this to the Commission? (Witness produces the following publications):

1. Better Agricultural Marketing through Research. Agriculture Information Bulletin No. 183
2. The Year Book of Agriculture 1954.
3. How Some Wholesale Grocers Build Better Retailers. Marketing Research Report No. 12.
4. Methods of Handling and Delivering Orders Used by Some Leading Grocers. Marketing Research Report No. 13.
5. Methods of Increasing Labour Productivity in and Small One-Floor Grocery Warehouses.
6. Methods of Increasing Productivity in Modern Grocery Warehouses.
7. Views of Independent Grocers of Wholesaler-Retailer Relations. Marketing Research Report No. 42.
8. Improving the Performance of Retail Food Store Cashiers through Better Training. Marketing Research Report No. 48
9. Improving the Efficiency of Retail Grocery Clerks by Better Training.
10. Improving the Effectiveness of Supermarket Managers.
11. Job Attitudes of Supermarket Employees.
12. Clinics for Retail Food Store Produce Departments.
13. The Check-Out Operation in Self-Service Retail Food Stores. Agriculture Information



14. Some Improved Methods of Handling Groceries in Self-Service Retail Food Stores. Marketing Research Report No. 7.
15. Receiving, Blocking and Cutting Meats in Retail Food Stores. Marketing Research Report No. 41.
16. Packaging and Displaying Meats in Self-Service Meat Markets. Marketing Research Report No. 44.
17. Principles of Layouts for Self-Service Meat Departments. Marketing Research Report No. 77.
18. Survey of Distribution Practices for Pre-packaged Frozen Meat. Marketing Research Report No. 137.
19. Improved Methods of Trimming Produce in Retail Food Stores. Marketing Research Report No. 192.
20. Unloading and Receiving Produce in Retail Food Stores. Marketing Research Report No. 129.
21. Cost and Sales Results of Alternative Methods of Handling Bananas at Retail.
22. Some Comparative Methods of Packaging Potatoes and Onions at the Point of Distribution.
23. Better Utilization of Selling Space in Food Stores. Marketing Research No. 38.
24. Space Allocations for Grocery Items in Food Stores. Marketing Research Report No. 80.
25. Improved Handling of Frozen Foods in Retail Stores. Marketing Research No. 104.
26. Citrus Coder Cuts Cost.
27. Faster Price Marking.
28. Improved Meat Retailing.
29. Bag Closure Costs Compared.
30. Retail Customers Prefer Packaged Produce Displayed with Bulk.



31. Agricultural Marketing
32. Improved Methods of Displaying Produce on Wet Racks.
33. Use of Recording and Transcribing Equipment in Loading Delivery Trucks of Produce Wholesalers. Agriculture Information Bulletin No. 43.
34. Methods, Equipment and Facilities for Receiving, Ripening and Packing. Marketing Research Report No. 92.
35. Materials Handling in Public Refrigerated Warehouses. Marketing Research Report No. 145.

COMMISSIONER MARTIN: That is too much.

MR. BOISVERT: I won't ask you to read any more than the first half, or something. But here is what I meant. I am glad this came up, because I would have had to ask permission to add this. This came from the United States Department of Agriculture, Agricultural Marketing Research Board, and here is a little synopsis of what they have to offer: On the rising costs and practices, reducing waste and maintaining quality, improving handling facilities of the agricultural products that Uncle Sam wants to see through to the consumer have been effectively and dynamically -- other than wheat, because wheat is largely governmental. This is the complete library.

COMMISSIONER MARTIN: May I ask you this one in French?

Vous voyez ce graphique ici, évidemment il y a une ligne inférieure qui indique une diminution des prix de la ferme et, dans votre mémoire, vous parlez



de l'efficacite des operations. Or, je suppose que l'efficacite des operations couvre, ou ca peut couvrir toutes et chacune des operations, et cela doit, evidemment, ce repeter au niveau de l'achat. Est-ce que cette efficacite des operations dans le domaine de la distribution peut avoir eu pour effet de reduire, ou d'amener une reduction dans le prix des produits de la ferme?

M. BOISVERT: Est-ce que je peux vous repondre en Anglais pour le benefice de Madame Walton?

The answer -- I have referred to other figures as efficiency indexes, and handling products, the total cost of which we have little or nothing to do with.

3 With time to answer Mrs. Consumer's requirements or to gain her acceptance and eventual payment of the product, there have been added ratings, labels, advertising, art work. You see, we have handled more efficiently, and to that extent done our share to reduce the total cost in a contest which involves more prepared foods, more leisure for Mrs. Consumer, and by the vote of Mrs. Consumer herself. I would call for enlightenment of Mrs. Consumer who has been interested in getting her products at the lowest possible price. I think that is beyond our field. We have pleaded not guilty on that score, and I can hardly go beyond that. Although I have some notions of my own, I disclaim authority to discuss



them here.

COMMISSIONER KIDD: Mr. Boisvert, I refer to the description of how you carry on certain parts of the business. Now, first of all, you say a, master plan. In the master plan would you use premiums or any other advantages to the buyers when operating this plan?

MR. BOISVERT: The master plan, sir, generally, as I have seen them, may embody total features, such as we are going to re-engineer your store, we are going to, if we can, find money for you, we are going to advertise for you, we are going to keep your accounting. Then, you see, when we say we are going to merchandise for you, that implies that we refuse to tie in with manufacturers' promotions. They originate from the individual's operation on the strength of their own total freedom to do so, and I am not one to prove or disprove the picture.

COMMISSIONER KIDD: I am interested in the phrase "customer selection". I have a number of questions in that area. The first one was that, and the second one is, do those who are selected receive any benefits because of their patronage?

MR. BOISVERT: Because of their affiliation?

COMMISSIONER KIDD: Well, if you want to call it affiliation, that is one thing, but I am thinking of when they buy from the wholesaler.



MR. BOISVERT: They are being selected for a marketing strategy reason only. First of all, they are recognized as a competent or promising operation; they are located in a desirable area where they will be able to expand, and it implies this process being included in this way. In this case wholesalers are conscious of the difficulty for the fellow left out. They can't give two neighbours the same identity. What they do -- they will contact a second group with a second identity in which they will include this second fellow here. If the other fellow is of a type that has not too much promise, the promise of economy because of the volume, they may introduce him to cash and carry and give him the lowest possible price.

COMMISSIONER KIDD: Are you saying that the only advantage is through this system of helping him to arrange his store?

MR. BOISVERT: To grow.

COMMISSIONER KIDD: It doesn't come about in the form of cash discounts for quantities or premiums or anything like that?

MR. BOISVERT: Premiums or promotional activities at a cost which he will pay.

COMMISSIONER KIDD: But not in the goods themselves?

MR. BOISVERT: Maybe occasionally.

COMMISSIONER KIDD: In this low-cost depart-



ment, where are the advantages in the low-cost department to any buyer? If there is no price discrimination or price differential, rather, as between buyers, where does the low-cost department come in?

MR. BOISVERT: Well, there is -- by the way, I would be **happy**-- I wouldn't like to be impertinent or uncoperative, but if you ask those questions of your visitor this afternoon, you will be sure to get authoritative answers.

I will tell you what I know exists. Where an affiliate is a large-type buyer, he will be serviced at the same price to the chain stores branch, at the same cost or sometimes lower than the cost of servicing the outlet of the corporate organization. But then many times the cost of servicing is based on volume, on a sliding scale arrangement; it may start from two and three-quarter per cent, which is lower than any corporate organization cost of wholesaling, and up to five per cent, and sometimes a minimum of ten dollars being exacted because a wholesaler would refuse to move his truck for less than that. The rest is marketing and merchandising, pretty much accidental or incidental to the basic low cost arrangement.

COMMISSIONER KIDD: Now, does this person or the firm who comes in under the low cost, comes in in the low-cost group, actually get his goods at a lower cost than the bigger buyer?



MR. BOISVERT: How do you put that?

COMMISSIONER KIDD: I am trying to imagine in my own mind where can the low cost be. How can there be any differential between the low-cost buyer who doesn't get all these services you are talking about and the selected group which does get all the services? Is there any advantage in price to the low-cost buyer?

MR. BOISVERT: I get you now. The man who gets the services pays for them over and above the cost of his merchandise. If he gets the accounting service, for instance, on top of his low-cost service, he pays for it, and if he gets the advertising he pays for it, he is billed for it.

COMMISSIONER KIDD: In the next paragraph you say: ". . . the retailer now welcomes the distributor's supervisor to help him sell. This man is an all-round competent manager.' Does this indicate that you have, in fact, a degree of control over the retailer?

MR. BOISVERT: A degree of control through leadership, not through mandatory -- the man is still the owner of his store.

COMMISSIONER DRUMMOND: Is the owner of the store in a position to quit the organization if he wants to?

MR. BOISVERT: Yes, sir.

COMMISSIONER KIDD: Now, we have this degree



of control, then. Now, does the person who assists in the way you have outlined here in helping the retailer to sell have any influence in the price the retailer quotes to the customer?

MR. BOISVERT: Yes, he usually suggests to them what the retail price is going to be.

COMMISSIONER KIDD: Would you say this was a type of price maintenance?

MR. BOISVERT: No, that is quite another thing.

COMMISSIONER KIDD: What is the difference?

MR. BOISVERT: The difference is -- take the case of one commodity, floor wax. There would be price maintenance if there was collusion between all buyers to sell at not more than that. But those things just don't work that way; price is made by competition. You try to be competitive, to reduce the price by 2 cents. There is no such thing as price maintenance in suggested selling price. This is one area which has been carefully cleared from other governmental operations.

COMMISSIONER KIDD: If everybody took the suggestion, would it not be the equivalent of ---

MR. BOISVERT: It has not been the case. Even the one who has not adhered to it is interpreted as not being in breach of the legislation.

COMMISSIONER KIDD: Does this indicate a growing degree of control of the independent retailer



by the wholesalers?

MR. BOISVERT: Not control but an interest, direction, coordination. The wholesaler supplies him with the benefit of the knowledge and know-how, no matter what it might be.

COMMISSIONER KIDD: It does look like the development of vertical integration.

MR. BOISVERT: No. Vertical integration is the integration in the ownership of a same -- in the manufacturing and wholesale-retail function. There is distinct individual ownership on the part of the retailers, wholesalers and the manufacturers.

COMMISSIONER DRUMMOND: That would be the final stage in vertical integration, when you had the three functions all in the one hand?

MR. BOISVERT: Yes.

COMMISSIONER DRUMMOND: But you could have the elements just by having a series of contracts between the several organizations?

MR. BOISVERT: The elements are always there.

COMMISSIONER KIDD: I would like to continue this, but we are on an extremely tight schedule.

COMMISSIONER DRUMMOND: I will continue on this point for one question. Now, could it happen that the large organization be in a position to acquire many of those stores, those affiliated stores, once they get to be profitable concerns?

MR. BOISVERT: What prevents it? If I may



so answer -- I wouldn't like to be insolent, but I see nothing that prevents it if the man has the desire and the money. We could talk a great deal about the implications, but the implications are quite -- we are quite alive to the implications where such situations may arise, and the people are alive to them, too.

COMMISSIONER DRUMMOND: It is a fact that, on that point, today we have an increasing number of independents who will have several units, in other words, small chains. Are the independents who operate more than a single store among your affiliates?

MR. BOISVERT: Independent retailers operating more than one store? They can operate two, they can operate three, they can operate four or operate ten. Usually in the United States, when they operate more than eleven -- I don't know why the figure eleven -- they are considered corporate chains. In Canada, when you operate more than four, you are considered a chain. I don't know so far of -- as a matter of fact, personally, I don't know of any one independently-owned chain of less than ten stores that is not already identified as such, and none of them is a member of our organization.

COMMISSIONER DRUMMOND: There wouldn't really be any reason, there would be nothing to prevent them affiliating with the wholesaler?

MR. BOISVERT: Up to the time -- you see,



what makes the basis of any association in any of the fifteen thousand or eighteen thousand associations in North America is continuity of interest. Now, what are we aiming at, what is our constitution? I think we have identified our group as being that which represents individual ownerships and free access thereto.

COMMISSIONER DRUMMOND: The independent who has several units is aiming at the same general objective, isn't he?

MR. BOISVERT: Yes, he is. We have one company who was a member who is -- and I have described that type already -- who goes into the process of pre-empting in a free competitive way all the locations it can lay its hands on. It opens up the stores, owns them, and operates them until a retailer can -- in fact, they are our members by philosophy.

THE CHAIRMAN: Mr. Boisvert, one question on which you may care to comment on. It has been said to us that chain store operators have very high costs, and the only way they can meet the competition at the retail consumer level is through their buying power which they use and to get quantity discounts, allowances, and also to push back prices right to the farm through the processors. Would you care to comment on that?

MR. BOISVERT: Mr. Chairman, having no figures on that I could not comment. If I had the



figures I would.

THE CHAIRMAN: The only thing left, then,
is to thank you very much for your presentation.

We will adjourn until two-fifteen.

---Whereupon the hearing adjourned until 2.15 p.m.



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---On resuming at 2.00 p.m.

Submission of
M. LOBE LIMITED

Appearances:

Mr. Bertram Loeb President
Mr. J. C. Horwitz, Q.C. Counsel

THE CHAIRMAN: We will now hear a presentation from Mr. Loeb. Would you care to introduce the gentleman, Mr. Loeb, with you?

MR. LOEB: Mr. Chairman, Mrs. Walton and members of the Commission, the gentleman to my right is Mr. J. C. Horwitz, P.C., the attorney of M. Loeb & Company of which I am president.

THE CHAIRMAN: Would you please read your
brief?

MR. LOEB: Yes. My name is Bertram Loeb and I am President of M. Loeb Limited, wholesale food distributors to 113 affiliated food stores and some 2500 independent retail merchants of various types. My presentation in this report covers our sponsorship of IGA food stores who are primarily concerned with the retail distribution of food in competition with the corporate chains. The area we cover can be defined roughly by Cornwall to the east, Kingston to the west, and Pembroke to the north.



While we are primarily wholesale food distributors, our role in so far as retail food distribution is concerned is that of a supply depot similar to that of the corporate chains, and we provide most of the services that corporate chain headquarters would provide to its retail outlets. These include a one source supply of merchandise such as groceries, meats, produce, dairy, health and beauty aids, frozen foods, store supplies, etc., meat and produce specialists in supervision, store location and development, store engineering, retail accounting, advertising, retail pricing programme, leasing and financing, a controlled stamp programme, planned sales programme, personnel training programme, and other aspects concerned with retail operations. Our competition at wholesale is not the conventional type of wholesale grocer but rather the corporate chain at retail, and though we may be wholesalers in form and fact, we are retail in our thinking and planning. Our competition is the corporate chain for whom we have the greatest admiration and respect and whose methods of merchandising are outstanding. It is our opinion that no other retailing method has made so distinct a contribution to the economic welfare of the nation as has that of the chain supermarket.

This presentation covers in principle three main aspects of the problem for which this Commission has been assembled:



- (1) Our opinion of some of the causes of the spread between the prices received by producers of food products and the prices paid by consumers.
- (2) A factual report on the use of trading stamps in which our company and retailers are widely engaged.
- (3) Some suggestions on what might be done to reduce this spread.

The food market is the largest of all consumer markets. In the past ten years it has more than doubled in volume and while retail food prices rose some 50 per cent, the actual money spent on food has almost doubled. The food industry is directly responsible for about one-sixth of the value of all goods and services produced in the country and consumer expenditures during 1958 will exceed five billion dollars for food. It is estimated that nearly one person out of every four at work is directly or indirectly connected with the food business. The steel workers who roll the tin plate for the canning industry, the mechanics who produce refrigeration and cooking equipment, the railway employees and truckers who are responsible for transportation, the advertising agencies and newspaper publishers who publish the advertising, all these and countless others are partners with farmers, fishermen, processors, packers and growers in



the never-ending job of getting the food from the farm to the table. It is, therefore, not surprising to find that directly or indirectly many phases of our economic life are intricately involved with the distribution of food and therefore would have a direct effect on its price. In addition to these factors, there have been very basic changes in the way Canadians live, work and play, and this has been reflected in the nature of merchandising and sales methods.

Many people are moving out into the suburbs and with the growth of shopping centres in many suburban areas, giant food stores have arisen which provide one-stop shopping for consumers requiring large markets on expensive land, lavishly equipped, and with huge parking areas to attract their clientele. With the rising income and people demanding more services, a new line of convenience food such as prepackaged meats, frozen food, prepared dinners, cake mixes, powdered milk, cleaning supplies, etc., have arisen, which the consumer is willing to pay for in order to make life somewhat easier. In addition, people are busier and prefer to shop less frequently, generally on week ends, or in the evening, thus requiring longer hours for the supermarket, and a higher ratio of expense.

We also submit that a reason for the price spread is the ultimate disposition of the product



raised by the farmer or grower. Let us take the example of peas which, at one time, were marketed primarily as a fresh product. Today these peas will be carefully examined, graded, and a large portion of them would end up as canned peas, with the price to be determined by the cost of the services required to market them profitably. They may also end up as a frozen product, with the cost of services even higher, since refrigeration and freezing is today a rather expensive form of distribution. These same peas can also be used in part as a part of a prepared frozen dinner which could contain one other vegetable and a portion of meat, all pre-cooked in an aluminum container, wrapped, frozen and widely advertised, and distributed at considerable expense. The sale of this type of convenience food is growing since Canadian women prefer to spend less time in the kitchen and more in gainful employment.

Let us take the cost of a 50-pound bag of Canadian grown potatoes which, at one time, sold primarily in their original form and was used by the consumer at the dinner table. Today an increasing percentage of these potatoes are converted into many by-products such as frozen french fried potatoes, potato chip snacks, dehydrated potatoes, and various other forms, to be sold on a year-round basis, many times the retail price of the potato in raw form. In



no case is the farmer or grower receiving a higher premium for the potatoes and as mentioned earlier, he does not know the ultimate disposition of his products, which may account for some of the spread.

World market conditions have a distinct bearing on food prices in this country which is evidenced today by demands made for Canadian cattle by American packers, and while the law of supply and demand exists in international trade, and Canadian farm products and livestock are readily marketable, there is bound to be an effect upon the ultimate consumer price of foods in this country.

It is our opinion, therefore, that the actual cost of the food itself to the consumer has not risen appreciably but that all the services in connection with that food, plus the changing nature of our way of life, the demands for convenience, the increasing competitive aspects of our economic way of life, have been the primary factors in the increase, and therefore in the spread.

Use of Trading Stamps: During the course of this Commission's investigation, there have been various suggestions made that trading or premium stamps, as well as tape plans, have been responsible for increase in the price of foods. It has even been suggested that trading stamp companies are parasites in the handling of food products and they tend to divert the consumer on the basic issues of



quality."

Back in 1905 the Federal Government passed certain legislation forbidding the use of trading stamps due to extremely unethical practices engaged in by a number of stamp companies. At that time there was a tendency on the part of the stamp companies to sell stamps to retailers who, in turn, issued them to consumers and then failed to redeem them as promised. In order to avoid such malpractice in the future, the Criminal Code defined certain regulations that must be maintained in order to permit stamps to be used legally as a promotional device. In May, 1956, a group of IGA stores, under the sponsorship of M. Loeb Limited, introduced the Gold Bond Stamp plan for the express purpose of meeting similar promotional techniques of the supermarket chain which, while different in form, were similar in purpose. The best legal advice in Canada was obtained and the plan was introduced in an attempt to remain competitive at retail level, and to express our appreciation to our customers for their patronage. In essence, stamps by one retail organization competes with the cash register tape of a second organization, or radio or TV programme, or give-away programme of still another, and it is for the retailer to decide which promotional device best fits his type of operation.



It is our opinion that the stamp programme which we operate will, in the long run, benefit more people than any other type of promotion since the consumer is rewarded in proportion to her purchases and the stamps are redeemable at any time in merchandise for the face value appearing thereon.

Actually, stamps are only one of several competitive tools available to the merchant seeking to increase his business volume. Some may give a discount for cash, others may cut some prices and feature loss leaders, others may use prize contests, give-aways, and other promotional devices. All of these sales methods have two things in common. First, to be successful they must pay their own way by the creation of new business volume and second, they cause competition, which has the beneficial effect of helping to hold down prices, even during inflationary times.

The suggestion that stamps increase the price of food has no basis in fact and the Dominion Bureau of Statistics would indicate the exact opposite. The City of Ottawa is the only major city in Canada where a major food retailer issues stamps with its purchases and yet the Dominion Bureau of Statistics indicates that the cost of food in Ottawa is lower than that of either Toronto or Montreal, which is in the same general trading area with supplies coming from the same sources, and neither



of these cities issues stamps.

In the United States research organizations have made many surveys to determine the effect of stamps on the cost of food and the results of these studies by marketing experts indicate that there was no evidence that stores giving stamps charged higher prices than non-stamp giving stores and a further study of the government legislation price index indicated they found that food prices have risen less in cities where stamps are given.

In our own trading area we have been able to continually increase sales and earnings for our retail members with the use of stamps, and on regular price checks with competitive supermarket chains, we find that it is possible to issue stamps to all purchasers and not find it necessary to increase prices. Actually, with increased volume paying for the cost of stamps in most instances, many of our stores have been able to reduce prices on many items which serves to indicate that a stamp plan can be counted among the anti-inflationary forces operating on food prices. In addition to this, many millions of dollars worth of goods and services have been created by the production and distribution of the many premium items redeemed in exchange for stamps.

To further substantiate our contention that stamps have no bearing on the cost of food, it will be observed that the spread between farm prices



and consumer prices were at their lowest ebb in the year of 1956 when stamps were in their greatest use.

Recommendations: It is our opinion that the spread between farm prices and consumer prices is not unreasonable. Through efficiency in distribution, greater productivity and mass selling, the food industry has succeeded in minimizing higher costs. The average Canadian today can secure much more food for the same amount of work than he did ten years ago. If we take one hour's work for our criterion, then for every one pound of food bought in 1947, the worker can, in 1957, buy 1.6 pound of butter, 1.3 pound of cheese, 1.2 pound of steak, 1.3 pound of bacon and 1.6 pound of potatoes. This, in our opinion, is the best example of how increased standards of living can be brought about for everyone by the introduction of efficiency in all phases of distribution.

Since one-half of the population of Canada lives in rural areas of 25,000 population or less, it is possible to reduce even further the cost of food in many smaller communities. This can be brought about by some form of government assistance to smaller independent retailers who, together with their wholesalers, can be put into the position of providing smaller communities with the type of services available to their shoppers only in chain supermarkets in large urban areas.

The backbone of this country is still the



independent merchant and his primary problem today is the lack of financing and know-how in order to enable him to compete with the efficiency of chain supermarkets. By developing a programme of aid to small business, it is possible in our opinion to provide many small merchants with the aids to develop an enterprise in their own trading area which would eliminate long distance shipping and distribution, all at high costs, to outlying areas.

It is also possible that the primary producers are not employing the most efficient methods in the growing and processing of their products. In our discussions with packers and growers, we have observed that many of them are too small to operate profitably, and that their entire production is taken up by one large retailer who, in many cases, is not concerned with the cost to the grower but rather with the end selling price. Possibly a Government Marketing Board or some agency appointed by it can be set up to determine what is a fair and reasonable price, based on market conditions, and other considerations.

We trust this information will be of some use to you in your deliberations and wish this Commission every success in its endeavours.

THE CHAIRMAN: Thank you very much, Mr. Loeb. I presume that you are ready to answer certain questions?



MR. LOEB: Yes, sir, I will be very happy to.

COMMISSIONER DRUMMOND: Mr. Loeb, I just want to get perfectly clear on what your own particular setup is. You state that your firm is a firm of wholesale food distributors to 113 affiliated food stores and some 2,500 independent retail merchants. You distribute to 113 affiliated food stores: by 'affiliated' do you mean stores which are your own stores?

MR. LOEB: No. I might explain that in this manner: I would like to discount the 2,500 independent retail merchants, because they are not primarily concerned with the distribution of food except they are small corner groceries, and so on. The 113 affiliated food stores are all independently owned: 98 of them operate under the IGA franchise; the other 15 operate under Muchmore Stores, which is a secondary group. All the stores are independently owned and managed and affiliated with our firm by contractual agreement. We have a signed agreement which states, in essence, that we will provide certain services to them, such as advertising, source of supply, legal counsel, promotional methods and supervision, etc., and they, in turn, will concentrate all their purchases with us and maintain our suggested selling prices and standards of cleanliness, etc. They are independently owned, but we,



as their supply depot, are bound to them by a contract. That contract can be rescinded on 30 days on the part of either party if one or other fails to live up to the agreement.

COMMISSIONER DRUMMOND: Well, in addition to that, isn't it so that your firm themselves operate and own a number of food stores?

MR. LOEB: Our firm does not own any stores in our group -- any stores at all. It is a family-owned business, and it owns only the wholesale distributing company, but all the IGA stores are independently owned. For your information I might mention that I, personally, have a very small minority interest in several of these stores by way of investment, but the firm, as such, does not own any of these stores.

COMMISSIONER DRUMMOND: Perhaps you could take the further step of explaining to us just for our clarification what the relationship is between your firm and, say, IGA?

MR. LOEB: Our firm, as I mentioned, is independently owned, and we are franchised by IGA headquarters from Toronto. IGA Canada Limited is a wholly-owned subsidiary of the United States and we are franchised in a specific area defined by counties. IGA does not own any stock in our company, and we don't own any stock of IGA. The only relationship is that IGA headquarters acts as a



headquarters buying organization for our company and provides us with some of the services that we give to our retailers, such as advertising promotion, supervision, etc. We pay to IGA headquarters an annual fee of one-fourteenth of one per cent of our volume, and, for the services, the one-fourteenth of one per cent of our volume is a very negligible factor for the services they provide.

COMMISSIONER DRUMMOND: But in these services they do act as the headquarters?

MR. LOEB: And buying organization for controlled labels only -- for a specific number of products.

COMMISSIONER DRUMMOND: Among the services which you give to the independent retailers, which you spoke of, is the service of helping them become more efficient and up-to-date?

MR. LOEB: Yes.

COMMISSIONER DRUMMOND: To expand and to get credit, and you say among other things, you, yourself, have a financial interest in a few of them?

MR. LOEB: Personally; it is a personal investment I have in some of these food liners.

COMMISSIONER DRUMMOND: This whole type of activity, this arrangement that you have with IGA at one end and the independent retailers at the other, it is really an arrangement designed to effectively compete, is it, against the corporate chains?



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MR., LOEB: Exactly.

COMMISSIONER DRUMMOND: You state in here some place that you have profound admiration for the corporate chain?

MR. LOEB: Yes, sir.

COMMISSIONER DRUMMOND: Have you any thought that the type of arrangement which you now have could be regarded as a first step or a stepping stone towards that corporate chain?

MR. LOEB: It is, in principle. We make no bones about the fact that the only difference between our operation and that of a corporate chain is simply the method of corporate structure. We classify ourselves as a voluntary chain whereby each member of that chain is a part of it by voluntary agreement, and we attempt to emulate the best aspects of the corporate chain, because we think their methods of distribution and efficiency are desirable, and unless we can match them in their own efforts, then the future of the independent retailer is very uncertain indeed. We have found that only by grouping together and following chain store techniques can we possibly hope to have the retailer and the wholesaler survive. What has happened -- and I think one member of the Commission can bear me out -- is that as the chains expand even the independent wholesaler eventually will disappear, because we are in a situation where many individual chain store outlets



do more volume and make more money than many wholesale grocers across the country. We know only by grouping together and by a concerted action can we hope to assure the survival of both.

COMMISSIONER DRUMMOND: But do you feel that the voluntary chain arrangement, the arrangement between firms such as yours, the independent retailer and IGA -- that that type of arrangement is likely to prove as strong a competitor as a corporate chain? If you had a choice would you take the corporate chain rather than this, or vice versa?

MR. LOEB: No, I would prefer, frankly, to maintain the methods that we are presently adopting, for many reasons: first of all, each of the stores, being independently owned, is, in many cases, managed better by the owner than a manager; secondly, we have many instances where independent supermarkets are beating the chains at their own game in their own areas, due to the fact the owner is generally a resident of that area, and earnings which accrue to him are spent in the area. He is a member of the community and free of many of the aspects of chain operations such as labour relations and absentee ownership, and so on. We know from our own experience that in management there seems to be a trend on the part of many of the corporate chains to give the individual store manager a share of the earnings of that particular store in order to assure a better management programme.



Personally, if I had a choice of the two methods of operation I would prefer to stick with what we have, because we can devote more time and more energy to the operation of the warehouse aspect of it which we own. We can operate more efficiently than a chain warehouse. A chain can operate better, though, under a supermarket manager, and we feel it is in the interests of the public that ownership be divided up and only increasing efficiency will result.

COMMISSIONER DRUMMOND: You don't feel you would be personally interested in buying out some of these independent retail stores if they became available?

MR. LOEB: We could have owned 50 per cent of the stores which we now supply. When I say that, we are financing them; we have guaranteed leases; we have gone on the covenant for mortgages and extended them credit, and we could have owned them had we desired and had another chain in existence, but we preferred to carry on the wholesale aspect and allow the retailer to ---

COMMISSIONER KIDD: You don't have any closer connections with any retail outlets than through IGA?

MR. LOEB: No -- what do you mean?

COMMISSIONER KIDD: You don't own, yourselves ---

MR. LOEB: Our company does not own one single store that we supply -- not one.

COMMISSIONER KIDD: Neither you nor your



company have any ownership?

MR. LOEB: I am the only individual in our company that has a minority interest in four supermarkets which we supply and, frankly, my only reason for getting involved -- and this was something that started back -- I should mention that we are in the food business since 1942. While our firm is forty-seven years old, we received the IGA franchise in 1942. The first year we had 34 particular stores and did \$34 million business annually. In 1958 this group has grown to 48, and we will do a little over \$40 million annually, which indicates the success of the programme and the consumer acceptance which we have been able to acquire. The reason I did invest in the stores, in 1933 -- one store at the time -- shall we say, had an excellent location in which I tried to interest four retailers to lease and operate, and they were very skeptical at that time, and the only way I could convince them on the soundness of my argument was to put money in myself, and when they saw me invest \$25,000 they were willing to go along to the same extent. That has now grown into four stores operated by the same retailers.

COMMISSIONER DRUMMOND: You have no thought as a result of your experience that what we call the voluntary chains are destined in time to become further corporate chains?

MR. LOEB: It is very unlikely, in my



3 opinion, for many reasons, the first of which is the problem of financing. I should tell you that of our 35 top stores we have had to finance 34. There has only been one retailer in our midst that has been able to manage on his own. It may be that an existing retailer will open a second or third store, but we will never, regardless of what concerted action is taken, be able to match the magnitude and widespread operations of the five corporate chains.

COMMISSIONER DRUMMOND: This is something quite different: I notice among other things which you mentioned the fact that the contract which you have with the independents -- if there is such a contract -- provides for the agreeing, among other things, to sell at the prices that you suggest?

MR. LOEB: At our suggested retail prices, yes.

COMMISSIONER DRUMMOND: To the extent they must agree to act on your suggestions, it almost looks as if that is the equivalent of price maintenance?

MR. LOEB: The only reason that we had to incur that aspect of it is that we have 42 stores in the cities of Ottawa and Hull, and if everyone sold at a different price we would be in a difficult position with the consumer. So, we must ask them to adhere to a policy, the same as chains do. Secondly, we suggest that that is the price they should sell at in order to realize a reasonable return on their



investment; and thirdly, it saves them a lot of time wondering what price to sell at, and wondering what this competitor and that competitor is doing, and so on. In other words, it is a service we provide for them, and while they are not compelled -- we have never dropped any of our retail -- expelled any of our retail members for failure to maintain our suggested price. We do ask them to adhere to it for purposes of uniformity, and also to cover our advertising. If we advertise a price in the newspaper, we ask them to maintain that price.

COMMISSIONER DRUMMOND: You do feel, of course, that you are in a position, because of your ability to provide a special judgment in this matter, you are in a better position than the average independent to decide what a price should be?

MR. LOEB: That is right.

COMMISSIONER DRUMMOND: I notice on page 6, the second paragraph, where you summarize the causes of the spread increase as you see it that that list of causes does not include quite a number of factors that various people have suggested to us at different times. For example, there is no mention here of such things as the increased taxes, transportation rates, wage increases -- a whole list of things I could mention.

MR. LOEB: Well, I included that in the "services" -- all the services in connection with it.

COMMISSIONER DRUMMOND: I see.



MR. LOEB: And that would include transportation, wholesale distribution, and so on.

COMMISSIONER DRUMMOND: Oh, yes; so, you had no thought of excluding those?

MR. LOEB: No, no, not taxes, no -- unless you want to recommend to the Government that something be done about taxes. We would be more than happy to concur.

COMMISSIONER DRUMMOND: They would not accept such a recommendation unless you had a good substitute. With regard to this stamp business, you say on page 10 at the end of your discussion about it that stamps have no bearing on the cost of goods. If that is so, I am wondering if you would say the same thing in regard to the use of advertising or any of the other promotional schemes which you suggest?

MR. LOEB: I say that stamps, as such -- and why stamps have been singled out as being the worst offender or the only cause for the increase in the price of food is something I don't know. Possibly it is because stamps are defined in the Criminal Code. Stamps are a form of advertising -- a promotional device, and, as such, are included in the cost of distribution the same as advertising or any other type of promotion.

COMMISSIONER DRUMMOND: All of these things do cost money?

MR. LOEB: Right.



COMMISSIONER DRUMMOND: All of them, secondly, have to have this money recovered eventually, so that they do form part of ---

MR. LOEB: They form part of the operating cost of a food market, but it is just one method by which we can increase our volume, and, generally, the increase in volume pays for the cost of the stamps with no resultant increase in the price.

COMMISSIONER DRUMMOND: My last question relates to the last sentence on page 11: "By developing a programme of aid to small business, it is possible in our opinion to provide many small merchants with the aids to develop an enterprise in their own trading area which would eliminate long distance shipping and distribution, all at high costs . . . : I was wondering if you could give us a little bit more detail?

MR. LOEB: Yes. In many rural areas of Canada there are wholesale grocers and small merchants, and as you leave one small area you enter into another. Consumers comparing prices in their own home trading areas -- well, let us take a town the size of Arnprior, which is 42 miles northwest of Ottawa -- or, directly west of Ottawa. Arnprior has about 5,000 residents. Most of the people in Arnprior were driving in to Ottawa six or seven years ago because they could shop at a chain supermarket at lower prices than they were paying in Arnprior. Arnprior had no chains



at that time -- or, had only one small chain, and a very outmoded one. When we opened our first IGA food-liner, owned and operated by Mr. White, a lifelong resident of Arnprior, he was able to bring to the residents of Arnprior the same prices and services, in a smaller way, that the chain was able to do in the City of Ottawa. That prevented the exodus of Arnprior residents every Friday to Ottawa to purchase their food requirements. We were able to afford the residents of that town the same type of food they were buying in Ottawa; we were able to offer it to them at Ottawa prices in Arnprior. Mr. White lacked the finances to open a store, and he lacked the know-how to operate that store, and we, together with Mr. White, arranged for him to get a mortgage loan. We provided him with supervision and store engineering and advertising, and he has been able to convince the residents of Arnprior that they can shop there at the same prices and enjoy the same quality that they could by driving 42 miles to Ottawa. If that type of programme could be developed in many other areas of Canada we think it could have the effect of decreasing prices by keeping trade in their own area. But, these people need assistance both financial and supervisory, and it could come from an organization similar to that in the United States called the Small Business Organization which makes available to independent retailers loans up to \$50,000 provided they are guaranteed by responsible



individuals, and we feel that such a plan in Canada could have the effect of helping the small merchants to compete; it could be the same in hardware products, or any other type of business.

4 COMMISSIONER KIDD: On page 4, the reasons for the development of giant food stores: first of all, would you say the giant food store -- large markets on expensive land, and so on -- are forms or samples of competition other than price competition -- a form of competition designed to attract people to these large stores?

MR. LOEB: Yes, I would.

COMMISSIONER KIDD: Would you say the costs of the expensive land and lavishly equipped stores, and so on, offset any possible price reduction which you might otherwise expect from large-scale operations?

MR. LOEB: That is right. You are dealing with a human factor. A large portion of the shopping is done by the women, and I can quote the case of my own wife who refuses to back her car into a parking area. She insists on driving in all the time, and she wants to go to a place where she has at least four feet on each side of her car to be able to park.

COMMISSIONER KIDD: You don't think it would be cheaper to go to a driving school?

MR. LOEB: Well, now, I do not know whether she is present at the moment or not. Today, the type of store which these shopping centres provide is very



costly: the parking area is equally costly, and you require three feet of parking, or four feet of parking, for every foot of shopping area. Consumers are paying a price for these services which they are getting, including one-stop shopping, air conditioning, colour dynamics -- if you want to refer to it as such -- and all the other conveniences -- play pens for the children while the mothers are shopping, and the many other factors which chain supermarkets and the shopping centres provide for their customers. This is a natural outgrowth of our development due to the move to the suburbs, and, parking being the big factor that it is is the primary factor resulting in consumer acceptance of shopping centres.

COMMISSIONER KIDD: If there are no price reductions possible because of these factors that have been mentioned, and competition of this kind keeps on growing, and there is apparently a fairly costly operation behind the competition, does it result in more costs through proliferation of outlets and possible unused capacities?

MR. LOEB: There are many large supermarkets today which are only developing about 25 per cent of their potential, and they are being developed with an eye to the future; but, that is the competitive aspect of a democratic way of life, and no one can prevent anyone from opening a store in any place where they feel there is an ultimate potential. The



cost of that store operating at a loss has to be borne by the stores which operate profitably, and that is a factor over which no one has any control, and even with the best research and surveys people often miscalculate on the amount of business available, and that store must continue to operate even at a loss, but we don't feel there are more stores being opened of this kind than the demand justifies. Population is increasing at the rate of about $2\frac{1}{2}$ per cent, and I don't think the stores are increasing at any higher rate. It is a question of people spending more money on food than they did before, and business changing hands. The smaller merchant, the corner store is disappearing, and business seems to be turning towards the larger corporate or voluntary chain where the services which the consumer demands are readily made available.

COMMISSIONER KIDD: You say with rising incomes people demand more services: we have heard the pros and cons of that a great many times in the past few months, but do you think -- and give us your opinion on this -- do people demand more services or have the very successful business operators, intelligent business people who see what is going to happen in the future, have they simply seen an opportunity to obtain more income for themselves by adding on these services to the consumer and knowing that the consumer can pay for them because of her higher income?



MR. LOEB: I think there is some of both.

I don't think people basically are stupid. I think they know what they are getting. I don't think they are being taken advantage of. They pay their money and take their choice. The question of whether they require it or not is another matter. We can live with black and white television, but they are throwing colour television at us. It is up to a person's economic status to decide whether they can afford it. There is no question, and I won't deny it, that super-market operators and aggressive merchants are taking advantage of the consumer's presence in the store by making things so palatable and by making merchandise so readily available that they are actually -- I wouldn't use the word "forcing" -- but they are encouraging women to buy more than they originally did by impulse sales, special features, advertising, and so on and so forth; and, as people's incomes rise, everyone is after the same dollar. In a sense the food merchant is competing with the entertainment merchant or the clothing merchant. There are so many dollars to be spent, and we are after every dollar that the consumer has to spend, possibly taking it away in some cases from the restaurant. We encourage more home cooking, and with the advent of television we are encouraging the use of more items such as snacks, and so on, which formerly were not used. There again it is a matter of a changing way of life.



COMMISSIONER KIDD: Sometimes we are not sure whether it is entertainment or food that is being sold -- I am speaking for myself, as you can imagine there. However, on this very same question you say the Canadian women prefer to go to work in industry and do not want to spend their time in the kitchen. This may be so, but what would you say to the idea that women have sought gainful employment because costs have risen to such an extent that she is forced to go out and seek this gainful employment?

MR. LOEB: Well, which came first, the chicken or the egg?

COMMISSIONER KIDD: It is a good question, though, don't you think?

MR. LOEB: It is a good question, but I haven't got the answer. I am not an economist. Why they do it is something you would have to ask them, but we know from experience that the sale of items such as cake mixes -- and that is, to me, one of the best indications of a desire on the part of the housewife not to want to engage in the chore of baking -- and the increased consumer acceptance of cake mixes, dessert mixes, and all other convenience foods is an indication that she can do it just as cheaply and twice as fast, and, in many cases, turn out a better product than she could herself. There is also the fact that the domesticity of the average housewife is not what it was in a previous generation. I think



people are getting a little lazy around the kitchen and they demand these things, or they would not buy them.

COMMISSIONER DRUMMOND: There is one point that occurs to me here: take this particular case: some years ago we didn't have these cake mixes, and we didn't have precooked food. Supposing no merchant had never developed them, and supposing that a sizeable percentage of our women population still wanted to work: what would have been the result? Would those women have worked in these large numbers, or would they have come to the merchants and virtually said, 'We must have precooked this or that' -- in other words, demanded it?

MR. LOEB: No. Very few people are really original. I don't think they would have demanded it. I think it was a natural outgrowth of aggressive business tactics, and it was a case where it was presented to the consumer, and we could say, "Why ride a horse when you can drive a car? Why slave in a hot kitchen when you could throw a readymade pie in the oven?' To indicate the trend I should tell you that only two weeks ago we have an improvement on frozen food as we knew it a year ago. Now frozen food comes in plastic bags, and formerly it would take about thirty minutes to cook a frozen food dinner. Today you have a portion of meat and two portions of vegetables in a plastic bag, and the whole thing is



immersed in water for five minutes and it is ready to eat. There is no telling how far this thing will go.

COMMISSIONER WALTON: It doesn't come out like stew?

MR. LOEB: No, each have a seaparate compartment.

COMMISSIONER KIDD: One further question, and we have asked a great number of people: do you think with the rising importance of the supermarket in the retailing of food that there are pressures created by these supermarkets on the processors and those pressures then work themselves back to the producer stage? In other words, has the supermarket got itself -- the chain stores got themselves into such a position that they can influence price to a great degree from the processors, and must the processor then try to push back the price to the farmer? This, of course, is what is implicit in this chart.



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MR. LOEB: Well, from our own experience I can only say that when basic commodities are made available to us or a feature, a new pack, we comb the market and secure the best available price based on the quantities we require and demanding that the quality be up to our expectations. I would not deny that everybody is being pushed in this day and age. We are pushing our suppliers for a better deal. Our suppliers are pushing for better working arrangements. It is a constant struggle to try and acquire as much as you can because of the increasing costs on the one hand and trying to keep prices down on the other hand. To say deliberately we are pushing our suppliers, whether it is the processor or the farmer, to meet our price, I could not honestly say that we indulge in those practices because we have a choice of several places where we can secure our supplies, and we will simply take the best of four or five presentations that are made to us and decide this is the one we want and proceed with it. This is based on our cost and the competitive selling price, to find a satisfactory arrangement whereby we can be left with some percentage of profit at wholesale the same as a chain warehouse requires a given retailer a reasonable profit, the same as chain supermarket makes it, and the retail outlets.

THE CHAIRMAN: Just one more question: the problem is, on this chart the last one to be



approached is the farmer and they have claimed all along that they are walking the plank.

MR. LOEB: We do not make them walk the plank, we do not deal with them. Basically we do not deal with the farmer; we deal with manufacturers or brokers and we cannot dictate the prices that we will pay to any of our suppliers. We primarily do the business with -- in the case we are talking specifically of food, and I would say that seventy-five per cent of our business is done with perhaps five per cent of the large canners or large producers, or possibly ten per cent, and if they set a price for their merchandise, let us take the case of Libby's or Canadian Canners, if they set the price of peas at \$4 a case then that is the price that we pay. We do not dictate the price to them and we must accept their price of \$4 because if not we will try and buy a competitive brand. We are merely distributors, we are acting on behalf of our retailers, because based on the price we buy that is the price we sell, and based on the price we buy that is the price the consumer will pay.

In the long run we take a very small markup on our operation; our net profit after tax is seven-tenths of one per cent. Our net profit is seven-tenths of one per cent, which is a very small markup, and it takes a considerable volume to give us any return on our investment. Our retailers are realizing about two per cent after taxes, which is the same as



the corporate chains. We do not have any direct relationship with the farmer as such. We are merely distributors and we must determine our policy between what the competition is selling at retail and what the manufacturers are charging us wholesale.

THE CHAIRMAN: I think you have made your point very clear as far as your own operation is concerned, but if I understand correctly I think Mr. Kidd's question was to the effect of whether the large corporate chains operating large supermarkets were, in your opinion -- and that is an opinion that you may not want to give -- whether in your opinion were in a position to exercise that kind of pressure.

MR. LOEB: They may be able to but whether they are doing it or not I do not know -- that is an indefinite "may be" but it as much as I can answer.

THE CHAIRMAN: But it is not an impossibility?

MR. LOEB: It could be the case but I have no reason to comment on it because I am not familiar with the facts in their case.

COMMISSIONER WALTON: Mr. Loeb, of course it is a complicated programme and we have had briefs presenting many angles for us, for and in some cases against, on the question of stamps, and I would just like to question you on your pages 9 and 12. You have indicated you have felt this was a promotional form of selling your merchandise that really paid off



better than if you had, instead of rewarding each customer in relation to the amount she had spent by letting her buy her merchandise. That is the form you have taken rather than what I would think would be a cheaper way of doing it, which is reducing the price. It would be a cost to you but you have indicated, using DBS, that they have not added to the cost of food products in Ottawa, in fact. In fact they have likely had the opposite effect, and you have given the source. Do you have the figures there?

MR. LOEB: Yes, I can quote these figures.

COMMISSIONER WALTON: It is my understanding that the DBS does not publish regularly any comparison of living costs in Canada by cities.

MR. LOEB: I think it is quoted by DBS.

COMMISSIONER WALTON: Well, they are two things. This is cost between cities. The cost of living index really measures a change that we had in living costs and the representative change in the various regions. But you have another item -- that is Canada's food budget -- we have it compared and this is another DBS figure. They do compare prices and cities. You have said in here that your stamp programme was in effect in 1956?

MR. LOEB: That is right.

COMMISSIONER WALTON: And it is my understanding on page 10 that the costs you have used on stamps in Ottawa in 1956, with the comparison of the



cost of living index in 1956 as compared with 1955 in these three cities actually may indicate the effect on cost because it showed that Ottawa rose the most, 1.71 per cent increase as compared with 1.28 per cent in Montreal and 1.52 per cent in Toronto. Now, we have all taken the DBS, and I suggest that if you could provide us with the data, because stamps are a cost and you say that volume offsets the cost, but my supposition would be that the first outfit in any town that had a stamp programme and drew the volume from the other merchants, or increased his volume, he might well offset the cost, but when everybody is in I suggest you have an expanding market there through which to draw customers. Then eventually you are all in the same boat, because with TV and everything else you cannot pass on cost; there may be a limit to volume and, as I say, you have a standard volume?

MR. LOEB: To answer your last question first, when everyone has stamps then the person doing the best job of merchandising these stamps will get the business. Everyone has disadvantages today, everyone has parking lots and things and they are all the cost of doing business. Which chain or store will get the volume? The one that does the best job of appealing to the public. While our chain may have trading stamps John B will have cash register tape plan which is identical to stamps. John C will give away a car every week which in the long run costs just



as much as stamps. John D will sell below cost which no one can do and stay in business, but they can to a certain extent use loss leader selling, which is one of many methods that can be employed to attract trade. As far as your original question is concerned, on the chart there is an indication that in 1956 the spread was at its lowest during the last ten years, or there seemed to be a drop in the spread. The farm prices went up and the cost of food went down. That was the year that the stamps achieved their greatest use, and then they petered off. During the last two years several chains have discontinued them but we have maintained them.

COMMISSIONER KIDD: There is just one point on that, Mr. Loeb: in this period, you are talking about the middle of the year?

MR. LOEB: That is when we introduced them. Stamps have no bearing actually on the consumer costs but the point I am trying to make is, stamps are a very localized situation, they are not widely used throughout Canada. As a matter of fact, they are hardly used throughout Canada; they are only used to any extent in Ottawa and some cities in Quebec, but our prices of food cannot be higher than anyone else for the simple reason that the competition will not permit it.

COMMISSIONER WALTON: That is not what I meant. I just meant I do not think you can, from the



statistics that you have used, which were not for that purpose -- I do not think stamps, which I thought you had implied, could be given the credit for lowering the costs of food in Ottawa.

MR. LOEB: No, I do not suggest that. I only suggested that in terms of the index of cities as of October 1st, Ottawa's index is 126.4, Montreal 126.6 and Toronto is 128.9. The food index is higher in Toronto and Montreal than in Ottawa as of October 1st, and there are no chains in Montreal or Toronto who issue stamps, which indicates that stamps generally have no bearing on the cost of food.

COMMISSIONER WALTON: Well, I have had one city's statistics to prove the opposite and if we can have yours that will hold ---

COMMISSIONER KIDD: Just one thing. Of course, the index could be at different levels, but they start at different points and they do not necessarily indicate that the prices are different or the same at any given time in these various cities?

MR. LOEB: Well, actually, in itself it is a hard comparison to make, but let us make the comparison in Ottawa alone. Our retail prices in Ottawa are identical with those of two major chains and we suggest the retail prices to our stores based on the competitive selling price, and we are able to sell at the same price that those chains are, still issue stamps and realize a profit which indicates that the consumer



is not paying any more for merchandise at stores which issue stamps. If we did not issue stamps we would have to devote the 1.75 per cent cost of stamps to other promotional devices, we would either have to give it away in other promotions, in contests or additional advertising, and we use it strictly as a method of attracting trade and helping our own group of stores maintain their position in a competitive market.

COMMISSIONER DRUMMOND: What would happen if you used the cost of your stamp programme to simply lower your selling price, your recommended selling price?

MR. LOEB: We could not do it. We would have to -- it would not be possible because we might have some lower prices but housewives are still attracted by the age-old phenomenon of what they feel is something for nothing. People like to play a game whether it is a cross-out game or a bingo game, and they like the idea of saving money and participating in contests and so on, so price is not always the factor in attracting a customer clientele. I can quote you instances where there is one chain in Eastern Canada which, on the average, is the lowest in price and yet does the least amount of business of the five major chains. In other words, there are other factors besides price which attract a clientele; there is cleanliness, there is variety.



COMMISSIONER WALTON: There are some which attract them much more than others?

MR. LOEB: That is right.

COMMISSIONER MacKICHAN: Referring to stamps again, would you have any knowledge of what percentage of stamps are redeemed, allowing for a time lag, of course?

MR. LOEB: Our stamp redemption at the present time since we have started -- at the present time -- this is for two and a half years -- is running at 87 per cent for stamps issued.

COMMISSIONER MacKICHAN: At the bottom of page 10, having in mind there are thousands of modern food items in a modern store, would there be any significance in the fact that the five items you have here showing the purchasing power of the consumer's dollar or the worker's dollar that all these should be products that we can see for only one stop between the farmer and the wholesaler outlets?

MR. LOEB: Well, these are items which are least affected by the service which I mentioned previously. There is not a great deal of manufacturing done to them and there is no change in their process and there is very little packaging involved. Potatoes are sold in their original state and steak is merely cut off a carcass of beef and bacon, there is a process involved, but these five items are a large portion of the perishable purchase of the average housewife and



we picked them as they are very basic in our diet.

COMMISSIONER MacKICHAN: It could be possible that another five items might show a considerable difference?

MR. LOEB: It could be possible.

COMMISSIONER MARTIN: In your brief you say that the Dominion Bureau of Statistics indicates that the cost of food in Ottawa is lower than that of either Montreal or Toronto. Might this be a result of higher competition in the two other cities as well as the stamps?

MR. LOEB: I would not agree with that entirely. It is our contention that Ottawa is the most competitive city in Canada and I do not say it to secure sympathy or to indicate our own position in the market but merely to tell you that five of Canada's leading six chains are all located in Ottawa and this is the only city in Canada in which they are all located. The rest are widespread throughout the country.

THE CHAIRMAN: Thank you very much, Mr. Loeb, for a very clear and useful presentation.

MR. LOEB: Mr. Chairman, we were unable to answer the questionnaire because of the fact that we were not in the food business during the period you wanted the answers. We were only able to give you information for the last five years, and, therefore, felt it would be difficult to answer.

THE CHAIRMAN: Well, should it be required ---



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MR. LOEB: We will gladly submit it for you.

THE CHAIRMAN: Thank you very much.



Submission of
THE LABOR-PROGRESSIVE PARTY

Appearances:

Mr. Nelson Clarke	Editor, Canadian Tribune
Mr. Sam Walsh	Organizer, Toronto Area

THE CHAIRMAN: Will you please proceed with the reading?

MR. WALSH: Mr. Chairman, first of all we want to thank the Commission for your courtesy in postponing our visit here and placing us last on the list. We hope we have not caused too much inconvenience to you.

The Labor-Progressive Party in this submission emphasizes first of all that the constantly rising cost of food is placing an unbearable burden upon many thousands of Canadian families. We say the responsibility for these rising food costs must be put squarely upon the monopolies in processing and distribution who are profiteering on the people's food.

We urge that the Royal Commission in preparing its report remember above all the mothers who are faced with the daily problem of putting nourishing food on the family table with nothing in the purse but part of an unemployment insurance payment or relief voucher, who are finding that, week after week, the price of



food is moving steadily up -- that the meal that it was possible to serve last week is now beyond their reach.

On April 1st last, there were 868,428 people in Canada registered as seeking jobs at the National Employment Service offices. There is the gravest concern throughout this country about even heavier unemployment in the coming winter. The Hon. Michael Starr, speaking on September 23rd in Vancouver to the Canadian Brotherhood of Transport Workers Convention, said:

"We will have unemployment next winter, and it may be as serious as last winter, although it is too soon to make predictions."

Professor Archibald W. Currie, of the University of Toronto, testifying before the Air Transport Board, said:

"The outlook for capital investment is not as good as it was three or four months ago. I'm really disturbed. Business will get worse before it gets better. We are very close to real trouble."

This sombre prospect for the coming winter makes it necessary to point out too that many families who last winter drew unemployment insurance, meagre as it is, now have exhausted their benefits and whatever other reserves they may have had.

One of the most alarming facts about the



present economic situation is that, as of August, 82,000 Canadians had been out of work for more than four months. Compared with the same month in 1957, the number of those who had been out of work from four to six months had increased by 40 per cent, while the number who had been without work from seven to twelve months had risen by 200 per cent. It is hardly necessary to add that people in such difficulties are already suffering very serious reduction in their standards of living, made worse by the fact that food costs already high a year ago have increased since that time, even if only by one point in the cost of living index. There is very real and growing hardship in this country.

There has been a too easy assumption that standards of living in this country generally are rising. It is not true.

According to the National Accounts, in terms of 1949 constant dollars, the per capita expenditure on food in the year 1947 was \$244. In 1957 it had risen to \$245 -- only one dollar above ten years ago. It is safe to say that 1958 figures when available will show an actual drop in food consumption below 1947 levels. Payrolls in July-September of this year were lower than in the same period of 1957. Payrolls and labour income in manufacturing have been lower in every month so far this year than in the same months of last year. The dollar value of retail



sales continued to rise until May, but then began to sag and was lower in August than a year ago.

As the standard of living falls, the price of food goes up.

It is the rising cost of food which is largely responsible for the overall rise in the cost of living in the past two years.

If the cost of living indices for the year 1956 are compared with those recently issued for September, 1958, we find that the cost of food has risen considerably more than has the cost of shelter, clothing or household operation. The increases are:

Food	9.5
Shelter	6.9
Clothing	.9
Household operation	3.7
Other commodities and services	10.6

As a result, the index as a whole showed a net composite increase of 7.5 in less than two years.

High and still rising food prices are driving down the standards of living of the Canadian people as a whole, with tens of thousands of unemployed suffering increasing privation. In this situation, we must condemn as immoral the profiteering of the food processing and distribution monopolies.

We are in full agreement with the testimony of Mr. S. Yaphe before this Royal Commission on October 16th last, when he said bluntly, "The public



has to know about this. The public is being robbed.'

He cited examples of the operations of the big chain stores in buying potatoes at 82 cents per 50-pound bag, and selling them at 39 cents for 10 pounds, making a profit of 130 per cent. But his testimony can be applied to every aspect of the food handling business between the producer and the consumer.

I should like to interrupt with a little special evidence that we brought here today about the process of price increases in some chain stores in the City of Toronto, and one was in Ottawa. The items that we have here in this little home contraption we brought with us are goods that were bought on the shelves largely from Loblaws, one item was bought from Dominion Stores. The prices are clearly marked on the items, like the one I have here, but they are marked with a little tab and underneath the tab is another price, a lower price. We will pass these out to the members of the Commission and I think you might pass them around.

We have an item here of Dutch Cleanser and the price on the tab is $26\frac{1}{2}$ cents; the price under the tab is $24\frac{1}{2}$ cents. Ajax Cleanser, two for 53 cents outside $24\frac{1}{2}$ cents was the old price. Nestle's Chocolate, 33 cents and the new price 37 cents. Chipits "a deal, 10¢ off"; 52 cents is the new price, 31 cents was the price underneath. I can go right down the list with price variations and if



anyone wants to tell us that is due to packaging, the only new feature of packaging that we can suggest is the tab that was placed on it. If someone wants to suggest this is due to the increased cost of labour, the only increased cost of labour we can see was the effort in putting the tab on. The prices were changed while the products were on the shelf. The price had already been paid to the primary producer; there were no additional costs that we can think of that anyone could suggest that could possibly account for changing the price because they were already on the shelf and already marked.

THE CHAIRMAN: Is this the price you are referring to?

MR. WALSH: The price on the tab, and if you just lift the tab you will find the other price.

THE CHAIRMAN: Are you sure this is a price underneath?

MR. WALSH: Yes, I think that is the usual method in which you will find -- I am not certain -- that is the usual method that is used. There is the price and if you take -- the Chippets -- the price on the outside is 52 cents and if you lift the little tab it has 31 cents beneath it.

THE CHAIRMAN: The point is, they could be other prices or figures referring to something else, but we will check it.

MR. WALSH: I think perhaps you should



because I think you will find that everything we have here ---

THE CHAIRMAN: Well, here you have the "¢" and here you have not. This is not proof in itself; it may be true but this is no proof.

MR. WALSH: Of course, somebody else could have put that on, but we are suggesting if anyone were to examine the situation in a Loblaw store they would find that and I think if they went to the cashier and tried to pay only the price, this figure here, whether it has a ¢ mark after it or not, they would find difficulty in getting out of the store.

THE CHAIRMAN: My question was, are you sure it was a price, and you said you were not sure.

MR. WALSH: I said I did not know whether the particular tab represented the price. I am sure the one I indicated to you was the price of the product -- I could not see from here. Is that clear?

THE CHAIRMAN: Yes and no. This tab indicates clearly whatever the price is. It says 37 and there is a "¢". Now here you just see 35 which could be a code number of any kind at all; it could be the number of the product without referring to price. What I mean is, it is not proof in itself. I do not say it is not the price; I am just saying it is not proof in itself.

MR. WALSH: I would suggest you examine into those that do have the ¢ mark, like this one,



93¢ and underneath that exactly the same kind of tab.

THE CHAIRMAN: We will have it examined.

MR. WALSH: We have a few more here and I think it is rather interesting for the members of the Commission because it does suggest that these factors which have been named as outstanding factors in price increases, at least in this instance do not seem to have any bearing on the question at all.

We must condemn the cynical attitude of Mr. T. G. McCormack, President of Dominion Stores, who boasted in his most recent report to the shareholders that the supermarket industry is 'almost depression proof'. Mr. McCormack bases himself on the old argument that, after all, no matter what else happens people have to eat. He is evidently not one whit concerned about the hardships to which people are subjected as a result of unemployment, falling incomes and rising food prices.

The chain stores and supermarkets are very fond of boasting about their efficiency. In an article in the October 1958 issue of Canadian Business, we are assured that 'Canada has one of the most efficient food distribution systems in the world.'

But the results of the efficiency of the supermarkets are super profits, not lower food prices.

Dominion Stores for the first half of 1958 showed a net profit after taxes of \$3,585,839, up 10.1 per cent from the same period last year. Its



rate of profit before taxes for the year 1957 was 41 per cent.

Loblaws Groceterias showed net profits of \$8,804.084 at the end of its last fiscal year, May 31st, an increase of 9.8 per cent. Its rate of profit before taxes last year was 33 per cent. Safeway secured a net profit before taxes of 43 per cent and Steinbergs of 25 per cent in 1957.

In the years from 1950 to 1956, these leading Canadian food chains made the following advances in net profits:

	<u>1950</u>	<u>1956</u>	<u>% Increase</u>
Dominion	\$1,479,517	\$4,326,000	192
Safeways	2,740,018	4,865,598	76
Loblaws	2,185,915	5,668,088	159
Steinbergs	661,126	2,009,052	204

The total assets of these four chains increased from \$104,183,000 in 1952 to \$344,006,000 in 1957, an increase of 230 per cent in five years. The shareholders' equity rose from \$48,180,000 to \$149,139,000 in these years or by 210 per cent in five years, over and above dividends.

Most revealing is the fact that in the first half of 1958, while there was a drop of 20.2 per cent for all manufacturing companies, the overall profit in retail trading moved in the opposite direction, increasing by 6.3 per cent.

These exorbitant rapidly rising profits on



invested capital provide the statistical basis for Mr. McCormack's boast that his supermarkets are almost depression proof, but the fact is that they are profits which have been cold-bloodedly gouged out of both the producer and consumer.

---Dr. Stewart resumes the Chair.

These super profits have become possible because of a relatively new development in food distribution in this country. That is the extension of monopoly control, which long prevailed in food processing, into the distribution of food. They are the direct result of the growing domination of food distribution by the big chains.

In this connection, we must cite the authority of the Hon. Ellen Fairclough, speaking in October to the 30th Annual Boston Conference on Distribution, as reported in the Financial Post.

She brings out the following facts: as far back as 1951, 49 per cent of all retail business was being done by 5.2 per cent of the stores. But since then, food chains have raised their proportion of the grocery and combination store business from 35 per cent to 43 per cent.

They are particularly entrenched in the central provinces, where in Ontario they now account for 57 per cent of all food store business.

But they are fast extending their grip over



the whole nation. Mrs. Fairclough says: "One major chain organization recently announced plans to establish a string of 50 supermarkets throughout the west. Another expects to have six stores in the Vancouver area alone."

The number of shopping centres, Mrs. Fairclough points out, have increased from 67 to 91 since 1956.

Mrs. Fairclough stressed that it is the largest chains that are establishing their domination over the entire industry. She said: "In 1956, the last year for which figures are available, there were 499 chains in existence in Canada, and nearly two-thirds of them were relatively small organizations, with four to nine units each.

"However, these small organizations are not maintaining their share of their own chain market, and the larger unit chains, those with 100 or more units, have now raised their share of the chain store market to over 50 per cent."

The effect of this whole development has been to bring retail food prices under monopoly control. To use a term now current in economic circles, they have become 'administered prices', which means, in effect, that monopolies are able to hold up prices at a high level at the expense of the consumer.

At the same time, it is also clear that the big chains are now in a position to drive the small independent grocers of this country to the wall.



N. K. Dhalla, writing on "Canada's Fabulous Food Market", in the October 1958 Canadian Business says:

"For the thousands of little independent 'corner grocery stores' throughout the country the future does not appear very bright. Many of them are marginal operations often run by the woman of the family while her husband augments the income from another job. Their strength lies in the fact that they provide certain services, such as credit and home delivery, which the chains cannot duplicate."

The "strength" Mr. Dhalla speaks of is really the long hours of labour put in by the small store-keeper, and the fact that he is placing himself in peril of bankruptcy through the extension of credit in a time of great economic uncertainty.

We have emphasized the super-profits of the grocery chains because this is a new factor of major importance in increasing price spreads and raising food prices.

At the same time, we must also draw attention to the continued profiteering of longer established monopolies in the food processing industry.

We have prepared a table (Appendix 1), which sets forth a summary of the financial position of companies which dominate the grain handling, flour milling, baking, packing and dairy industries of this country, in the years 1947, 1952 and 1957.



Missing from this list are such major companies as Quaker Oats and Swift Canadian, which are wholly U.S. owned and publish no separate figures for their Canadian operations.

We would draw the particular attention of the Commission to the enormous increase that has taken place in the equity of the shareholders of these companies over the past ten years: 120 per cent increase for grain elevators; 122 per cent for flour and milling companies; 223 per cent for baking and confectionery companies; 106 per cent for packing companies; and 118 per cent for dairies.

These figures bring home the degree to which accumulation of capital has taken place on the basis of the exploitation of the workers in these industries, and the use of a monopoly position to depress farm prices and raise prices to the wholesale and retail trade and ultimately to the consumer.

Along with this vast capital accumulation has gone the maintenance of substantial annual dividend disbursements (except with respect to the 1957 rate obtained in flour milling).

In the case of the packing and dairy industry, we have calculated the rate of earnings and profits both with respect to sales, and with respect to equity. The first method is that which is naturally preferred by these corporations, whose accountants are very adept at presenting a picture of very low profits



in relation to sales. It is apparent though that the true facts about the great profitability of these enterprises is brought out by a comparison of net earnings to the shareholders' equity.

It is in these monopoly profits made by great corporations, constantly extending their stranglehold over the economy of the nation, that we must find the cause of excessive price spreads today.

We are well aware that these monopolies themselves are constantly seeking to place the blame elsewhere.

They din into the ears of farmers that labour is getting too high wages; they din into the ears of the workers that farmers are getting too much for their produce.

The line of propaganda is so varied as between rural and urban areas to create the maximum possible disunity and confusion between workers and farmers, who are natural allies in the struggle against the big monopolies.

We feel that it is unnecessary for us to deal at great length with these arguments since the Commission has already received much excellent evidence from both farm and labour bodies: but to review very briefly some of the points brought forward.

Your attention has been drawn to the alarming fact that retail prices of food products have a tendency to rise at precisely the same time that the



price to the farmer falls.

Evidence has been submitted by the Alberta Wheat Pool, for example, to the effect that since 1947 the price of bread has increased by 58 per cent, while in the same period, the price of wheat fell by 18 per cent.

Your attention is drawn to the analysis made by Roger Perreault in the Economic Annalist. He points out that retail food prices have increased just over 12 per cent since 1949, while in that same period, farm prices fell by about 3 per cent. He further points out that since 1949, the farm share of retail costs has declined from 51 per cent to 45 per cent.

It is pointed out in the August issue of the same journal that farmers received slightly less than 44 cents of the dollar consumers spent for farm foods of Canadian origin in 1957.

In presentations before the Commission, farm organizations have established that, while their returns have declined, their costs of production have increased. The Saskatchewan Wheat Pool said in its brief, that while farm prices have dropped as above noted, farm costs have increased by 50 per cent over the ten-year period from 1947 to 1957. There is an increasing squeeze placed on farmers as a result, and unless returns are improved so as to meet production costs, many farmers will be driven from the land.



Your Commission has also received evidence in regard to wages paid employees in the food handling industries. The Ontario Federation of Labour, for example, established in its submission that if average hourly earnings of production workers in 41 manufacturing industries are ranked; the record shows that in 1956 distillery and brewery workers came 12th, packinghouse workers 19th, grain mill workers 24th, bread and bakery workers 33rd, and fruit and vegetable canning workers 36th. It is noteworthy that with the exception of distillery and brewery workers all these groupings lost ground in comparison with other industries since 1946.

The Ontario Federation of Labour also brought forward that wage earners in the food and beverage industry were earning an average of \$62.45 a week in June of this year, as against an acceptable minimum of \$73.83 based on the Federation's projection of the 1949 estimates of the Toronto Welfare Council.

It is the opinion of the Labor-Progressive Party that these facts, along with many others submitted to your Commission, establish conclusively that both primary producers and workers in processing and distribution, need not a lower, but a higher return for their labour.

Therefore, our conclusion is that, if the Royal Commission is to meet the hopes reposed in it by the Canadian people, it must come squarely to grips



with the central problem of price spreads, which is curbing profits in the food industry.

It is, of course, our view as a party looking forward to the ending of the exploitation of man by man and of nation by nation, that the final solution to this problem lies in the elimination of the profit system from the processing and distribution of the necessities of life, by introducing social ownership of the means of social production. We stand for the nationalization of the food processing industries, and the ownership of all distribution outlets by the consumers themselves, organized through their municipalities or in consumer cooperatives.

These fundamental solutions, we are confident, will be accepted and put into effect by the Canadian people before many years have passed.

Having said that, we must also say that it is of the most urgent importance that immediate actions be taken now to halt as far as possible the further driving down of the standards of living of the Canadian people by profit gouging monopolies.

We submit that this profiteering should be condemned by the Royal Commission and that suitable action should be recommended to the Government of Canada.

It is our view that the most effective and enforceable step which could be taken in the immediate future would be to limit the profits in all industries



having to do with the processing and distribution of food. If the profits of pipeline companies need to be limited and regulated as recommended by the Royal Commission on Energy sources (as we believe they do), then it is of even more critical importance to limit the profits on the people's food.

We submit, therefore, that the Royal Commission should recommend that all profits over and above a reasonable fixed return on capital actually invested, should be taxed away from the food processors and distributors by the Federal Government, thus eliminating the incentive for the present rampaging drive for super profits.

THE CHAIRMAN: Thank you, Mr. Walsh. I apologize for not being here when your brief opened. As you know, you have the distinction of presenting the final brief to the Commission. We have heard a great many briefs, almost one hundred of them, and a great many of the arguments we have heard on a number of occasions. I do not wish to suggest there is nothing we need in your presentation, and I presume some of the Commissioners will have some questions.

COMMISSIONER MacKICHAN: On page 4 there is one sentence: you speak of the super profits and say that this is an extension of monopoly control. Now, we have heard, as you probably know, that there was quite a large measure of competition in the food business, and would you give us a bit of explanation as



to what you base this statement on?

MR. WALSH: It is not our contention that the extension of monopoly control reduces competition. It reduces competitors but it certainly does not reduce competition. On the contrary, we think it makes it far more violent and much more -- well, that is the word for it -- far more violent. We do not hold the view that the extension of monopoly control in any way reduces competitiveness or competition. We think that the results are exactly the opposite.

COMMISSIONER DRUMMOND: How do you define "monopoly"?

MR. WALSH: Extension of control by a small group in a section of industry or a portion of industry. It is not our assumption that monopoly means unique control -- controlled by one firm or one group of individuals of an entire industry. That is not the sense in which we use it. I think there are extremely few monopolies one could point to of that sort, exclusive monopoly.

COMMISSIONER COUVRETTE: Is not the word monopoly composed of, in itself, part of it being from Greek origin which is monos which means one and unique?

MR. WALSH: Yes, that is the Greek origin of it but life itself has dictated in almost no cases. I mean, the use of the word, the fact the word is of Greek origin and can be used in that sense



does not mean in life it is actually that way. I think we would be hard pressed. I think monopolies exist and everybody recognizes monopolies exist, and I think all of us think the same thing on monopolies, but you would be very hard pressed to find a single, unique -- not even International Nickel is a unique monopoly in the sense it is the only company in the field.

COMMISSIONER COUVRETTE: It is a case where it is not the right word in the right place?

MR. WALSH: Well, until someone gives us a better one. The extent in which we want the definition is in the industry by a small fraction in the industry or a group in the industry. That is the sense in which we use the word.

COMMISSIONER DRUMMOND: How about oligopoly?

MR. WALSH: That sounds like a good combination of words but the Greek might be better.

COMMISSIONER COUVRETTE: The right word might provide for less confusion.

MR. CLARKE: If the word became generally acceptable perhaps the Commission could bring it in, but it is not.

COMMISSIONER MARTIN: Well, on the last page you use the words "reasonable fixed return", speaking of profits. What does that mean, "reasonable"?

MR. WALSH: Well, now, that is an embarrassing question, I must say, because as we point out



in our comments here as far as our party is concerned we think all the profit should be taken out of the food processing; it follows from that that any profit taken out of the food processing is actually reasonable from our standpoint, or, to put it in other words, we do not think it is reasonable to draw a profit from the production of food, so all I can say to you in reply to that is, if the Commission in its wisdom decides to recommend anything to do with profits in the food industry we hope it will be, in your light, a reasonable proposal. All I can say is, from our standpoint probably any proposal you would make in this regard, with the best of intention, we would like to see. That is all I can say to you in that respect because it is a matter of principle, our position is a principle position with respect to profit-making in the food industry.

COMMISSIONER COUVRETTE: On the same line and the next words to it you make a suggestion there that fixed return should be on capital actually invested. I am just saying that it is worth while studying it.

MR. WALSH: Yes, we think it is and that is why we suggest it.

COMMISSIONER KIDD: On page 2 you say:

"There has been a too easy assumption that standards of living in this country generally are rising. It is not true."



Now, we have had statistical evidence to say that disposal income has risen in the past ten years and also evidence to indicate that real incomes have improved over the past ten years. I was wondering if your case would not be better put if you say that the standard of living for some is rising, and for others it is not rising, and certainly for those who have been unemployed over the past year or two, their standards have been pushed down?

MR. WALSH: I think what you are saying is absolutely correct and I subscribe to what you are saying. At the same time, I think it also would have been better if we had stated it slightly differently, that the consumption of food per capita would have been better because it is generous here, a little too much that way. Your standards of living generally are rising. What we should have said more accurately, as well as the point you are making, is that the general employed per capita consumption of food as shown here is in constant dollars, so that there has been no rise, or a one-dollar rise per capita per year, over the past ten years.

COMMISSIONER KIDD: You would not agree with some statements that we have had, that per capita consumption of food may have increased in a variety of ways?

MR. WALSH: It could be -- oh, yes, we certainly think so. If the standard of living were



raised, if wages were raised, if people had more purchasing power -- I do not think people are stuffing themselves to physical capacity -- it is the purchasing power which needs to be raised.

COMMISSIONER DRUMMOND: According to some medical authorities a great many people have tremendous difficulty in pushing themselves back from the table.

MR. WALSH: I personally appreciate the advice of the medical authority.

COMMISSIONER DRUMMOND: I take it, Mr. Walsh that your general thesis is that the cause for the increase in the price spread is the thing you refer to as monopoly, or if you wish to call it, oligopoly. You refer somewhere in here -- I think in your appendix -- also to a list of companies some of which are engaged in processing various foods, some in wholesale and some in the retail end. I take it from your statement that you feel there was a very large element of monopoly in those industries quite some time ago?

MR. WALSH: Yes.

COMMISSIONER DRUMMOND: And if you look at this graph here you will notice in the last very few years we have had this pronounced widening of the spread, and one of the things we are especially concerned with is finding out the reasons why that pronounced widening has taken place recently. Now, if this monopoly appeared to exist long before that period



started, why did the spread not begin to widen long before it did?

MR. WALSH: I think you will find in some various periods of that spread, it developed, in some periods it came together but the new factor was the considerable extension of monopoly and monopoly practices in the field of retail merchandising, which is the new factor which corresponds, I think, just about exactly to the period that your chart shows, so whereas you can get stabilization of prices over a period of time, when a new factor of that sort enters it is bound to make a rather dramatic difference as is shown in the chart.

COMMISSIONER DRUMMOND: I take it from your reasoning that you would boil it down to saying that the pronounced widening in these last few years is almost entirely due to the sudden expansion of the retail chain stores?

MR. WALSH: No, I would say from the standpoint of -- in Canada, dealing with the Canadian situation I would say that is the main new factor which is having that effect. I do not think it is the only factor but I think it is the main new factor, together with the fact that monopoly control in other branches of the industry has increased during this period of time. That is, the share of the largest concerns in the whole business, in their particular sphere of the business, has increased in this period



of time as well, so it is not solely the new monopolies in retailing but also the increased shares of the larger groups in wholesaling and in processing.

COMMISSIONER DRUMMOND: Would you say that the monopoly of the early period has been partially destroyed by the new monopoly which has occurred in the later period?

MR. WALSH: Well, they are certainly not more competitive and I suppose some of them have been destroyed, but I suppose that is true, the monopoly has not been destroyed. On the contrary, the concentration of capital into fewer hands has increased during this period of time at the expense not only of small groups but even of larger groups who we can consider had some of the characteristics of monopoly. It was the case of the largest swallowing not only the smallest but some of the largest.

COMMISSIONER DRUMMOND: On page 3, towards the bottom half, you give some statistics showing the rate of profit. One company is Dominion Stores at 41 per cent -- 41 per cent of what?

MR. WALSH: Capital investment.

COMMISSIONER DRUMMOND: Is this the gross profit before taxes?

MR. CLARKE: Before taxes, yes.

MR. WALSH: No, a net profit after taxes.

COMMISSIONER DRUMMOND: Net profit after taxes?



MR. WALSH: Yes, these figures are based on the Financial Post survey of industrials, which is quoted frequently.

COMMISSIONER DRUMMOND: Do you mean to say there was a net profit after taxes of 41 per cent?

MR. WALSH: Oh, no, I am sorry, that was the first sentence. The second sentence it is the rate of profit before taxes; for the year 1947 it was 41 per cent.

COMMISSIONER DRUMMOND: In the paragraph immediately after that you talk about net profit -- that is the total net profit of Dominion Stores being up 10.1 per cent, and the total net profit of Loblaws being up 9.8 per cent. Might not the total profit of any such firm be up simply because of the increase in volume of business being done by that particular firm?

MR. WALSH: Oh, yes.

COMMISSIONER DRUMMOND: Could that not be the major reason for this?

MR. WALSH: It could be, yes. It could very well be. We are not suggesting as a matter of fact -- that is one of the points we are taking ---

COMMISSIONER DRUMMOND: You are not suggesting that the actual rate per unit, the rate of profit has increased?

MR. WALSH: No, not necessarily.

MR. CLARKE: We are suggesting an increased



rate of profit on investment capital.

COMMISSIONER DRUMMOND: You are suggesting there is that?

MR. CLARKE: Yes.

MR. WALSH: On invested capital but it does not mean per unit.

COMMISSIONER DRUMMOND: That there has been no corresponding increase in investment?

MR. WALSH: Not a corresponding increase in investment. There may have been an increase in investment but not corresponding. The other point we are making in this regard is the increased financial strength of these companies comes after the point that was up for discussion a little earlier with the gentleman who spoke here previously, gives them a considerable power with respect to the prices they can set for produce they buy as well as the prices at which they sell.

COMMISSIONER DRUMMOND: That is all, thank you.

THE CHAIRMAN: Thank you very much, Mr. Walsh and Mr. Clarke, for your brief, and it will receive consideration along with others that have been submitted.

We have reached now the point of concluding our hearings. The Commission started its hearings early in April and proceeded from Vancouver on to Edmonton, Regina, Winnipeg and then on to Fredericton,



Charlottetown, Halifax and St. John's. We then broke off our hearings in the summer months and opened again in Toronto in September and in October in Quebec City and Montreal, and are concluding here in Ottawa during the month of November -- in all, I think, about thirty days of hearings, and during that period we have received something a little short of one hundred briefs.

Everywhere we have gone we have had the most satisfactory arrangement made for our hearings and I would like publicly to express our thanks to our own staff for their assistance in organizing the hearings. We are also very grateful to our fine group of reporters who have been with us around the country and have taken down so many words.

I would say a word of thanks to the Press and other media of communication who have done a fine job in covering our hearings.

We are particularly grateful to those firms and organizations who took the time to prepare briefs and came forward to present them.

We now have before us for our consideration the various submissions which we have heard, and as I have indicated during the hearings in Ottawa we are in receipt of a substantial number of returns from business firms operating the food industry, with a great deal of material which has been provided to us in that way.



In addition, during the summer months and continuing into the fall, we have had our own staff at work on particular studies and more general studies are being made. This is a mass of material which the Commission will have to go through now, and we will proceed to work on it and in due course will come up with a report.

Thank you.

---Whereupon the hearings closed.

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